Report of the Blue Ribbon Commission On the Municipal Budget

City of Newton, Massachusetts
February 1, 2007

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Introduction and Executive Summary

Introduction

This is the report of a volunteer citizen's advisory commission ("Blue Ribbon Commission") appointed by Mayor David Cohen and President of the Board of Alderman Lisle Baker. The Commission received the following charge upon its appointment in September, 2006, and was asked to submit its report on February 1, 2007.

> *The special Blue Ribbon Commission is asked to review all aspects of Newton's projected financial resources and expenses so that citizens and officials alike may have a better idea of what to expect in the next few years. This work will build on the efforts of the Long Range Planning Committee and the financial forecast it has helped shape with the assistance of the Mayor's Office and the Office of the City Comptroller. The Commission will be asked to report its findings to the Mayor and President of the board no later than February 1, 2007. In carrying out its charge, the Commission is expected to look at the forecast assumptions concerning the City's revenues and expenditures. If adjustments should be made, identify the basis for change as well as what responses might be appropriate so as to help the City plan for the future as well as possible.*
>
> *As part of its overall review, the commission should look at the assumptions about revenues and expenditures to determine if the forecast for the next five years is within the range of reasonable projections, and if adjustments should be made, on what basis.*
>
> *It should examine whether the appropriate balance is being anticipated for allocations between operational expenses and capital investment in the City and School plant and equipment over the next five years to avoid more expensive capital investments in the future.*

We would also want the Commission to review what measures might be feasible to close any gap between anticipated expenses and anticipated revenues over the next five years, and if so, what they might be.

Finally, we ask the commission to determine what adjustments in the forecast might usefully be made to have it serve as a guide for projecting revenues and expenses beyond ten years.

In all of this the Commission may use the financial forecast as a starting point.

The Blue Ribbon Commission has made extensive efforts to conduct an open process to permit public access to its deliberations. Between September and February, the Commission met as a full body nine times. In addition, three subcommittees of the Commission met numerous times. All meetings were posted as public meetings by the City Clerk. All full Commission meetings and many subcommittee meetings were recorded and available for general community listening on the City of Newton's website. All draft reports of the subcommittees were posted on the City's website so they would be available to the public. On January 11, 2007, the Commission hosted a public hearing at Newton City Hall to hear directly from any members of the public who might wish to comment on the draft reports. Finally, for the duration of the Commission's work, a blog was universally available on the web to review documents, engage in written debate, and to permit submission of public comments (www.newtonblueribbon.blogspot.com). Over 5000 page loads were viewed on the blog during the Commission's work. The blog was linked to the City of Newton website to permit cross-referencing and easy linkages between the two sites; and it was also linked to the *Newton Tab*'s blog and the Garden City Community Blog for additional ease in cross-referencing.

Before summarizing our conclusions, the members of the Commission wish to express their appreciation to a number of city employees who provided substantial assistance to our efforts. In particular, we mention: Susan Burstein, Chief Budget Officer; Elizabeth Dromey, Director, Assessment Administration; Sandy Guryan, Assistant Superintendent for

Business and Finance, Newton School Department; Michael Kruse, Director of Planning and Development; Sandy Pooler, Chief Administrative Officer; Robert Rooney, Commissioner of Public Works; Edward Spellman, Treasurer; and David Wilkinson, Comptroller. We were impressed with the professionalism and openness of these staff members. The comments and suggestions contained in this report should be read as supplementing the technical and fiscal expertise of these employees.

We also want to express our appreciation to students from Harvard's JFK School of Government, who, under the direction of Professor Linda Bilmes and Carolyn Hughes, provided analysis and data to our Commission. Their report is attached as an Appendix to this document.

We ask readers of this document to understand that the work of this Commission during its short period of existence cannot supplant the judgment of the long-serving elected officials and employees of the City. To the extent that our observations are helpful to the professional leadership of the City, we are pleased to offer our thoughts. However, a budget is ultimately a reflection of the policy determinations of the executive and legislative branches of the City government. Beyond that, it must be responsive to the priorities of the citizenry. In no way do we put ourselves before the public or the elected officials as being more expert on these matters as they determine the course for this City.

Executive Summary

Here is a summary of our major conclusions and recommendations.

- The General Fund Multi-Year Budget Forecast ("the City's Forecast") for fiscal years 2008-2012 understates the gap between revenue and expenses for each of those years.
    - The City's Forecast shows a deficit starting at $3.6 million in 2008 and rising to $9.0 million in 2012;
    - The Commission's Forecast rises from a deficit of $6.1 million in 2008 to $35.7 million in 2012.

  - The budget gap faced by the City is a structural deficit, not a one-year mismatch between revenues and expenses.

- Three items account for most of the difference between the Commission's forecast and that in the City's Forecast:
  - On the expense side, the salaries and wages line item in the City's Forecast does not include an increase in wages and salaries that could result from collective bargaining, nor other wage adjustments during this period.
  - Because it was prepared before the School Committee's November 27, 2006, projection of increased school enrollment, the City's Forecast also does not include an appropriate adjustment for the expected costs related to that increase.
  - Capital maintenance has been persistently under funded, and the City's Forecast understates the amount of capital maintenance that we expect will be needed to maintain City plant and equipment;.
  - In light of these conclusions, the City should give serious consideration to the use of general overrides of Proposition 2½ limits to close the gap between revenue and expenses, both for general operating expenses like salaries and wages and to enhance its ability to invest in annual capital maintenance requirements.

- On the question of capital investment, we find the following:
  - The City's capital investment should be need driven, but the City does not currently have an engineering-based inventory of renewal and replacement projects for its structures. We endorse the School Committee's recent actions in this arena and urge Mayor Cohen to expand his recent proposal for a partial inventory to a complete inventory so that policy-makers can make informed choices about investment priorities and so that a long-term capital formation policy can be adopted.

- If the City maintains a financial approach that limits debt service to about 3% of its annual budget, its ability to issue debt is constrained and is not sufficient to maintain the City's physical assets – especially with the additional amount of direct annual capital maintenance expense referenced above. Nonetheless, the Commission does not herein prescribe a new debt management policy. Allocating a higher proportion of the City's budget to debt service is a complex matter that will involve trade-offs within the existing budget. City officials should evaluate this matter more fully.

- A higher level of debt issuance to provide the resources for needed capital investment could be supported through general and/or debt exclusion override votes. Many Massachusetts communities with the highest credit ratings use these tools to place before the voters decisions about maintaining long-term municipal assets. If, as we expect, Newton's capital reinvestment program cannot be supported by a shift from within the existing budgetary resources, we urge the City's consideration of these additional tools.

- We have not performed an exhaustive analysis of operational improvements and efficiencies that might reduce the budget gap, but no major ideas for such improvements have risen to the forefront. Likewise, although we have reviewed revenue-producing ideas, no one of them in itself, nor any combination of them, rise to a level that could make a meaningful dent in the structural deficit the City seems to be facing over the next five years. Nonetheless, the following deserve consideration from city officials:

  - The City of Newton's pension assets, totaling about $250 million, have yielded a substandard return for many years. Each 1% in underperformance costs taxpayers $2.5 million per year - a loss which is compounded over time. These assets could be much more effectively managed and thereby produce higher annual returns. We urged the Retirement Board to consider shifting all or a major part of the retirement fund assets to the Commonwealth's Pension Reserve Investment Trust ("PRIT") program -- as is already done by a

majority of the 104 municipal and country retirement boards -- where it would have the advantage of larger scale assets and in-house full-time professional managers.

- The major source of revenue is property taxes. The underlying assumptions for growth in this line item in the City's Forecast are reasonable and supportable based on recent history. The actual amounts collected will be closely tied to the City's zoning and permitting process. That process relies heavily on review of most projects (those larger than 20,000 square feet) by the entire Board of Alderman. The city should review this lengthy and cumbersome process to determine whether this current approach to development is consistent with the City's long-term interests.

- Payments in lieu of taxes ("PILOTs") are appropriately estimated in the City's Forecast, given the current law. PILOTs in the City are well below those collected by other cities with large non-profit institutions (Boston and Cambridge). The Commission recognizes that action by the state Legislature would be required to change the framework within which the City operates, and we have no way of judging the appetite for such action on Beacon Hill. Short of statutory changes, we urge the City's official to use the "bully pulpit" to engage the major tax-exempt educational institutions in negotiations about more significant contributions to the City.

- The City's energy efficiency program should be revitalized to garner savings that could accrue from enhanced energy management, rising over five years to perhaps of $2 million per year. The engineering-based assessments of City buildings cited above should be used to establish priority investment opportunities in this arena.

- The City's recycling program, once at the vanguard of such municipal efforts, no longer is. Programmatic enhancements should be considered to expand the

scope of the recycling program. However, these could potentially generate only modest cost savings and revenue increases.

The report that follows is organized into three sections, each one reflecting the work of one of the three Commission subcommittees – The Budget Forecast, Capital Investment, and Closing the Gap – but, in all, constituting the analyses and recommendation of the full Commission.

The Budget Forecast

Introduction

The Commission was asked to "look at the assumptions about revenues and expenditures to determine if the [city's] forecast for the next five years is within the range of reasonable projections." With one notable exception (maintenance of the city's physical infrastructure and plant), we interpreted this request as an exercise in vetting the assumptions of the city's current forecast rather than modeling various policy options or changes in current financial and management practices. This distinction between inspecting current assumptions and proposing new policies is an important, but sometimes blurred one.

To clarify this distinction, consider the following: The Commission did not, for example, build a new forecast around what its members might subjectively determine to be a more appropriate property tax rate. We did, however, examine the assumed rate of growth in property tax revenues at the current tax rate. This examination took into account such matters as new property construction and the balance between the size of the city's residential and commercial tax base.

In sum, with the single exception of capital maintenance, we looked at expected cash inflows and outflows under the current policy framework. We reserved for the accompanying narrative any potential changes in policy and practices that seem to merit further consideration.

Methodology

The Commission adopted as its base case the five-year forecast prepared by the Mayor's Office, in collaboration with the Board of Aldermen, the School Committee, and the Comptroller's Office during the spring of 2006 ("the City's Forecast"). We then identified in this forecast those items that had the greatest impact on the future surplus or deficit of the city's operating budget. For each of these critical items we examined the underlying assumptions of the City's Forecast and assessed their realism in light of Newton's past

experience, expert testimony from key city officials, and our best judgments of "what was inevitable." In several instances our assessments led to revised assumptions about what is driving an increase or decrease in revenues and expenditures. We then integrated these revised assumptions into a new forecast called "the Commission's Forecast."

The principal output of this analytical work includes (1) a summary of the assumptions embedded in each forecast; (2) the five-year forecasts themselves; and (3) an accompanying narrative that either further explains our revisions or highlights issues for the full commission and the public-at-large to consider.

We should stress that the forecasts presented here are, by their nature, estimates of future events, which cannot be known with certainty: There are no facts about the future. While we believe the forecast and the accompanying narrative presented here are reasonable and directionally correct, it is likely that future revenues and expenditures will differ from the figures presented here.

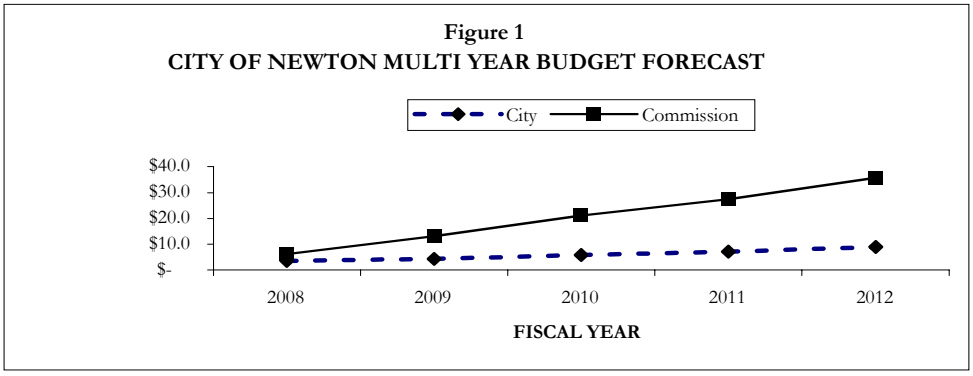
We also want to acknowledge at the outset the professionalism of the above-mentioned parties who prepared the initial City's Forecast. This preliminary forecast, which represents the first effort of city government to move from an annual budget process to a process that looks several years into the future, was presumed to be a starting point of a more detailed five-year operating budget forecast. The Blue Ribbon Commission considers this initial effort at multi-year budgeting to be both a bold and skilled exercise. Finding the right balance between projections, predictions, and pure speculation is never easy, even after all the relevant (and correct) quantitative data have been assembled. Although the forecast of the Blue Ribbon Commission differs in some important respects from that of the city, we want to acknowledge the fact that the city's base case forecast provided us with a truly excellent point of departure for further consideration and revision.

Summary of Findings

Our analysis predicts that Newton's revenues (or sources of funds) will be larger than the City's Forecast for each of the next five years. Unfortunately, our analysis also shows expenditures (or uses of funds) growing much faster than the City's Forecast, dwarfing the revenue growth. Thus, we show a significantly larger deficit in each of the fiscal years for 2008-2012 compared with that in the City's Forecast. By FY2012, we see Newton facing a $35.7 million budget deficit, or roughly 10% of revenues. In other words, the city is facing a structural deficit, not a one-year deficit. This deficit will expand over the next five years at a rate that is likely to exceed that already assumed in the City's Forecast.

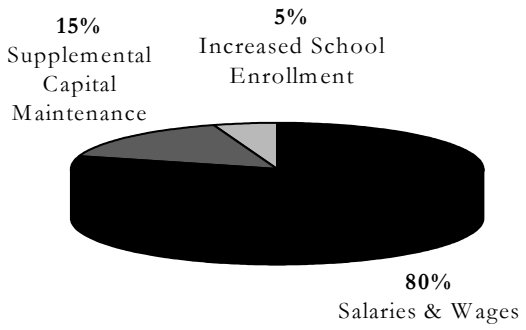
Assuming an increase in state aid of $1.4 million each year, the City's Forecast shows Newton's deficit increasing from $3.6 million in FY2008 to approximately $9.0 million in FY2012. The Commission's Forecast shows this deficit rising from $6.1 million to $35.7 million over the same period.

Figure 1 below shows the increasing gap between forecasted revenues and expenditures from 2008 to 2012. As Exhibit 3 (attached) shows, a big portion of this increasing "gap" reflects the inclusion of a much-needed supplemental capital maintenance budget. Without this supplemental item the subcommittee still sees the city deficit growing to $20.4 million in FY2012.



While the *accumulated* deficit over the forecast period projected by the city totals approximately $30 million, the Commission projects a number closer to $100 million. As depicted in Figure 2 below, three items account for most of the $70 million difference: salaries and wages (80% of difference); supplemental capital maintenance (15%); and increased school enrollment (5%).

Figure 2
MAJOR SOURCES OF DIFFERENCE BETWEEN CITY AND COMMISSION FORECASTS
(in percent)



Readers should bear in mind that due to the mathematics of compounding, a seemingly minor initial difference between faster expenditure growth and slower revenue growth can have a profound impact over a five-year period. This is what Figure 1 shows so graphically. The $35.7 million deficit forecasted by the subcommittee for FY2012 represents, for example, a difference of 2.3 percentage points in the annual growth rate of expenditures (5.5%) over revenues (3.2%)

Exhibit 1 attached to this report lists the major assumptions of both the City's Forecast and the Commission's Forecast. Exhibit 2 presents a summary page of the City's Forecast. Exhibit 3 presents the Commission's Forecast.

As noted above, some of these assumptions deserve a special narrative or explanation. These appear in the following section.

Narrative

Both the City's and the Commission's Forecasts are divided into Financial Sources of Funds and Financial Uses of Funds. The Financial Sources panel in the Commission's Forecast reflects our sense of what revenues are "most likely." The forecasts included in the Financial Uses panel reflect our understanding of what expenditures are essential to keep the city's policies and priorities in place.

Even a casual review of the forecasts reveals that the big line items are Property Taxes (a source of funds) and Salaries, Benefits, and Pension Contributions (uses of funds). The assumptions for each of these items, along with a selection of other important line items, are elaborated below. Readers should be comfortable relying on Exhibit 1 for all other assumptions.

Before turning to this narrative, we should point out that the Commission's Forecast integrates expenditures related to currently expected increases in student enrollment in the city's schools that were not foreseen at the time of the City's Forecast. (A new enrollment forecast was prepared by the School Committee on November 27, 2006.) To be more specific, Newton's public schools see enrollment increasing by about 230 students, or approximately 2%, each year over the next several years. Additional costs related to this increased school enrollment will affect salaries & wages, benefits, utilities, supplies & materials, and capital outlays.

Property Taxes. The commission's property tax forecast is based on the $2.2 million of FY2007 new growth increased at an average rate of 2% growth per year, which is the historical rate over the past five years. This forecast does not assume any significant additional, taxable development over the forecast period -- such as the Chestnut Hill Square development project. Should this specific project come on line as currently defined by the developer, we estimate on the basis of expert testimony that it could generate approximately $2 million per year in new tax revenues for the FY2011 and FY2012 (and perhaps more thereafter).

The Commission's Forecast also assumes that property tax abatement allowances will fall from 1.4% of the tax levy to approximately a 1% level as current disputes over the valuation of telecommunications properties get resolved in the near term. The 1% abatement allowance tracks the City's historical experience.

Intergovernmental Revenues. The Commission's Forecast assumes that state aid will grow at $1.4 million per year. This amount has been added to the relevant line item, which, we hasten to point out, includes other items that are expected to increase and decrease over the forecast period. Our assumed annual rate of growth in new state aid is equal to the city's low-end estimate shown at the bottom of Exhibit 2. There is a possibility, however, that state aid could increase by a factor of two (according to the Mayor's Office). Such an occurrence would have a moderate, positive impact on the operating budget in the early years of the forecast period.

Salaries & Wages. Based upon a historical review of wage and salary adjustments, the subcommittee feels that an overall 2.5% per year increase in total payroll expenditure is more likely than no increase at all -- as currently assumed in the City's Forecast. While the City's Forecast acknowledges that each one percent increase in salaries would increase annual operating costs by approximately $1.5 million, it does not include any increases for salaries and wages. Going forward, the city will need to continue assessing the competitiveness of salaries and wages in order to attract and retain qualified municipal employees.

We want to make clear that we are not predetermining the future results of collective bargaining or other salary adjustments, but rather we are simply making the observation that future rises in salary levels are a more likely outcome than static salary levels if the City expects to retain and attract qualified staff at all levels of municipal government. The practice in recent years of reducing staff as a partial means of financing salary adjustments is not a viable long-term strategy.

Benefits. Like most cities and towns in Massachusetts, Newton faces a large, unfunded retiree health benefit liability. As of June 30, 2006, this totaled $561 million. Were

the City to change from the pay-as-you-go policy that is reflected in the forecast to an actuarial funded method, the annual expenditure on employee benefits would increase immediately by $38 million, rising to $44 million by the end of the forecast period (2012).

This projected increase reflects the pre-funding of a rapidly increasing liability. Municipal health care costs have increased by 63% from 2000 to 2005 across the state. During the five years ending June 30, 2006, Newton's total health care insurance expenditures increased by 54% or $10.4 million. That equates to the 11% annual average increase assumed in the Commission's Forecast model.

Since the City actually does not have authority from the State to create a trust for the funding of these benefits, the Commission has chosen to use the pay-as-you-go method of funding for modeling purposes.

Pensions. Along with health insurance, pension costs are a major expenditure growth item. The numbers included in both the City's and the Commission's Forecasts are predicated upon the most recent (January 1, 2006) actuarial valuation of the pension plan. The numbers also assume an 8% annual rate of return on plan assets. As noted later in this report, to the extent that this rate of return can be improved through participation in the Massachusetts Pension Reserves Investment Trust ("PRIT"), the City would have more flexibility to address the financial implications of increasing life expectancies of retirees and their dependents, as well as other financial needs of the city.

Supplemental Capital Maintenance. The Commission added this line item to the forecast as a result of due diligence that revealed a persistent under-funding of renewal of the city's physical capital.

Assuming (a) an estimated replacement value of the City's buildings, exclusive of the high schools, totaling $390 million (we excluded the replacement value of the two high schools because one is essentially new and the other is provided for in the mayor's capital plan and because the forecast covers a relatively short five-year period); (b) a need to invest at a rate of 3% of replacement value per year to maintain these buildings, based upon a recognized and widely used standard; and (c) a building life of 25 to 50 years, the City needs

approximately $11.7 million each year for capital maintenance versus the currently projected spend of $4 million per year.

The $7.4 million gap between "required" and "current" capital maintenance can be bonded, meaning financed with bonds. Assuming a 20-year term for the bond and a 5% interest rate, it will cost the City approximately $750,000 in incremental expenditures each year to service the required debt (i.e., supplemental capital maintenance expenses for buildings would increase by $750,000 each year).

In addition, we estimate an annual $2 million shortfall in funding for the maintenance of road and street infrastructure, which translates into an increase of $200,000 in debt service each year. Accordingly, all in, the Commission foresees required supplemental capital maintenance expenditures of $950,000 per year going forward.

Summary

In sum, the City's changing financial picture deserves continued study and discussion. While the Commission reports a developing structural deficit of some significance, we hasten to add that that a narrow debate of (a) the numbers presented here and (b) related proposals of how best to close the widening gap between revenues and expenditures would miss the point of this forecasting exercise. The "big question" facing all of us is what kind of city we want Newton to be. The City's management team, including the Mayor's Office and the Board of Alderman, has provided excellent support (and significant expertise) to this forecasting review. It is now up to us, as citizens, to make our collective aspirations explicit and figure out how best to shape our portfolio of wishes to the fiscal capabilities of the community.

It is the view of this group that the budget gap is real and substantial enough to require action by our elected representatives and the public, if the quality of City services and plant and equipment is to meet levels that we believe are essential to the citizenry. While we have not conducted a thorough assessment of all possible improvements in operating

efficiencies that might be wrung out of the City agencies, neither do we see a high likelihood of major items there that would significantly reduce overall expense levels. Accordingly, we recommend that the City give serious consideration to a general override of the Proposition 2-1/2 property tax limits to create additional annual revenue to support general operating expenses like salaries and wages and also to support a level of funding that would sustain a capital maintenance budget needed to support the City's buildings.

Capital Investment

Introduction

Public infrastructure – roads, school buildings, police and fire equipment, libraries, parks, museums – is at the heart of the quality of life in a community. In an era of scarce public resources, when there is a temptation to defer major investments, it is especially important that capital spending, and its companion, spending on maintenance of capital assets, be periodically reviewed for adequacy. In its charge, the Blue Ribbon Commission was specifically asked to address this question:

> "(The Commission) should examine whether the appropriate balance is being anticipated for allocations between operational expenses and capital investment in the City and School plant and equipment over the next five years to avoid more expensive capital investments in the future."

Newton's Investment Policy

Newton has long recognized the need for explicit guidelines regarding investment. In 1981, Proposition 2-½ had just been passed and Newton was preparing itself for a new tighter economic future. Fearing that the new fiscal pressure would mean significant budget cuts, the executive branch sought to establish guidelines in a number of areas. City Comptroller David Wilkinson recalls three such guidelines that were intended to protect capital investment. The first was that free cash, or the end of year surplus, would be used only for capital projects. The second was to establish that items under $500,000 would not be bonded. The third was that debt service, or interest and principal on bonded debt would be less than 3% of the budget and that if it were then the difference would be spent directly on capital items. The 3% was used as a placeholder since that was the percentage that debt service had been in recent years.

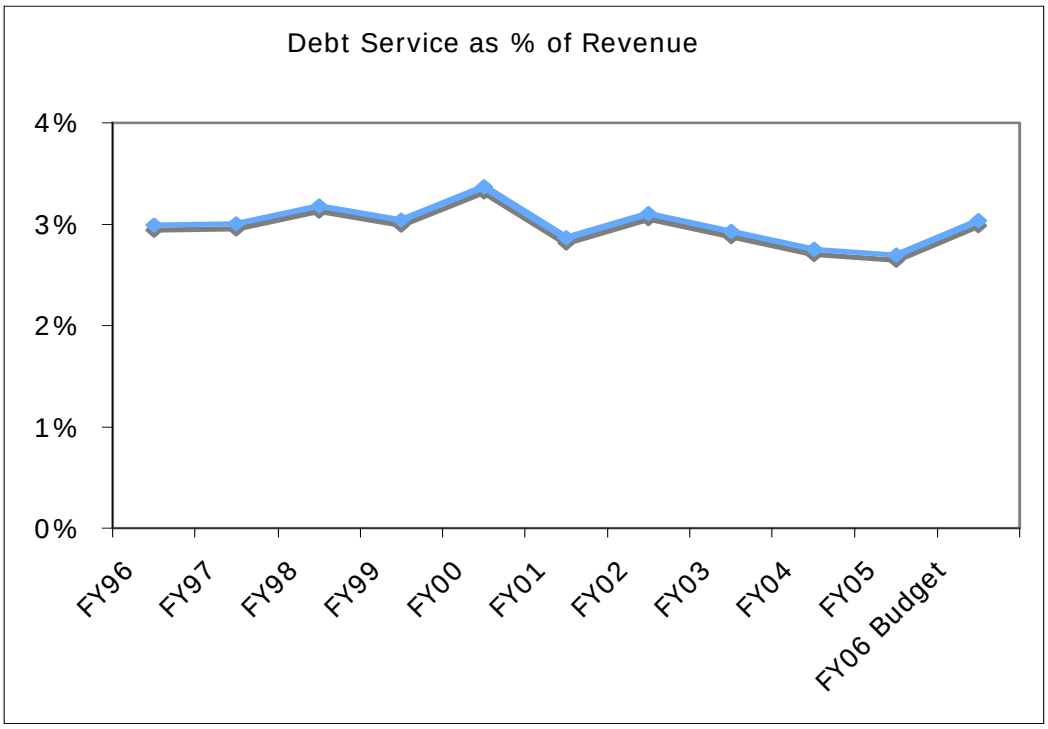
In the 1990s, the 3% policy was formalized by incorporation in the five year Capital Improvement Plan (CIP). That policy, as stated in the most recent CIP is:

General Fund Debt Service will be approximately 3% of General Fund Revenue.

Total capital expenditures will be approximately 5% of General Fund Revenue.

By virtue of the fact that the Capital Improvement Plan is reviewed and approved by the Aldermen, this policy was adopted by both branches of city government.

Throughout the past decade, Newton has been true to this policy: Annual interest and principal payments have varied little from the 3% of revenue rule.



Data source: Comptroller's Office, City of Newton

Total capital spending over the past ten years was almost $110 million, or almost exactly 5% of the $2.2 billion in revenue available over that time.

Newton's Credit Rating

A credit rating is akin to a report card. While the City's underlying property and income wealth is the foundation for its rating, the City's long-term management diligence

and its response to fiscal management issues has earned it (in the MCAS lingo) a highly proficient score. Newton has held the highest possible credit rating, without interruption, for more than thirty years from Moody's Investors Service, a nationwide independent credit rating agency.

There are four primary areas measured by an independent credit rating agency:

1. Debt factors – How much debt is issued, for what term and how rapidly will it be repaid? What are the City's future debt issuance plans and will these plans create any unusual stress on the City's ability to repay its debt without constraining its current operations?

2. Economic factors – What are the economic factors of the community and region? Is the tax base diversified? What is the development growth potential and capacity?

3. Administrative factors – What is the community's record of sound financial management? What is the political environment? What efforts are made in capital investment and long-term fiscal planning?

4. Financial factors – What are operating results over a period of years? Tax collection percentages, reserve position and reserve policies? Capital infrastructure maintenance policies and practices?

There are also areas that are important to city residents that are not measured by a bond rating, including the condition of buildings, roads, and parks. There is not a great deal the City can do about economic factors affecting the wider region and not a lot more development space in Newton. But the three other areas present both opportunities and pitfalls. Ideally the City would continue to manage in such a way as to preserve its Aaa rating; however, in the long run a Aaa rating will not be maintained if city infrastructure and services are not maintained. Moving from a Aaa rating to a Aa rating would add approximately 5% to annual borrowing costs.

Is Newton's capital spending adequate?

Bearing in mind that debt is just one component of a strong credit rating, we reviewed available evidence of the adequacy of Newton's capital investment policy. As school buildings represent 85% of Newton's capital assets, this seemed a good place to look.

In April 2006 the Massachusetts School Building Authority (MSBA) released a Needs Survey Report describing the general condition of public school facilities throughout the Commonwealth. Teams of educators and engineers visited every public school in the state, a total of 1,817 schools. Using a standard survey to assess general conditions, they assigned each school a condition rating of 1 to 4.

The Report concludes that the condition of Massachusetts schools overall is generally good. 76% of the buildings received a rating of 1 or 2, meaning that they are generally in good condition, with a few building systems that may need attention. Less than 3% of schools (62 schools in total) received a rating of 4, meaning they are in poor condition and candidates for major renovation or replacement.

The Report found that there was little correlation between the relative wealth of a school district and the general condition of the school buildings within that district. Our city is a case in point. Over 30% of Newton's schools received a rating of 3, meaning that they are in fair to poor condition and need moderate to major renovation. These schools include: Angier, Cabot, Pierce and Zervas elementary schools, Brown Middle School, Newton North High School and the Newton ECC (pre-K program). 40% of Newton's schools received a rating of 2 and 27% received a rating of 1.

Massachusetts has spent a substantial amount on school construction and renovation – 63% of the state's schools are being reimbursed for projects undertaken between 1986 and 2005. During that period in Newton, however, only 41% of schools have received such state funding.

Newton's schools are considerably older than schools in Massachusetts. 32% of our schools were built before 1940, compared with 24% statewide. Only 18% of our schools were built after 1970, compared with 32% statewide.

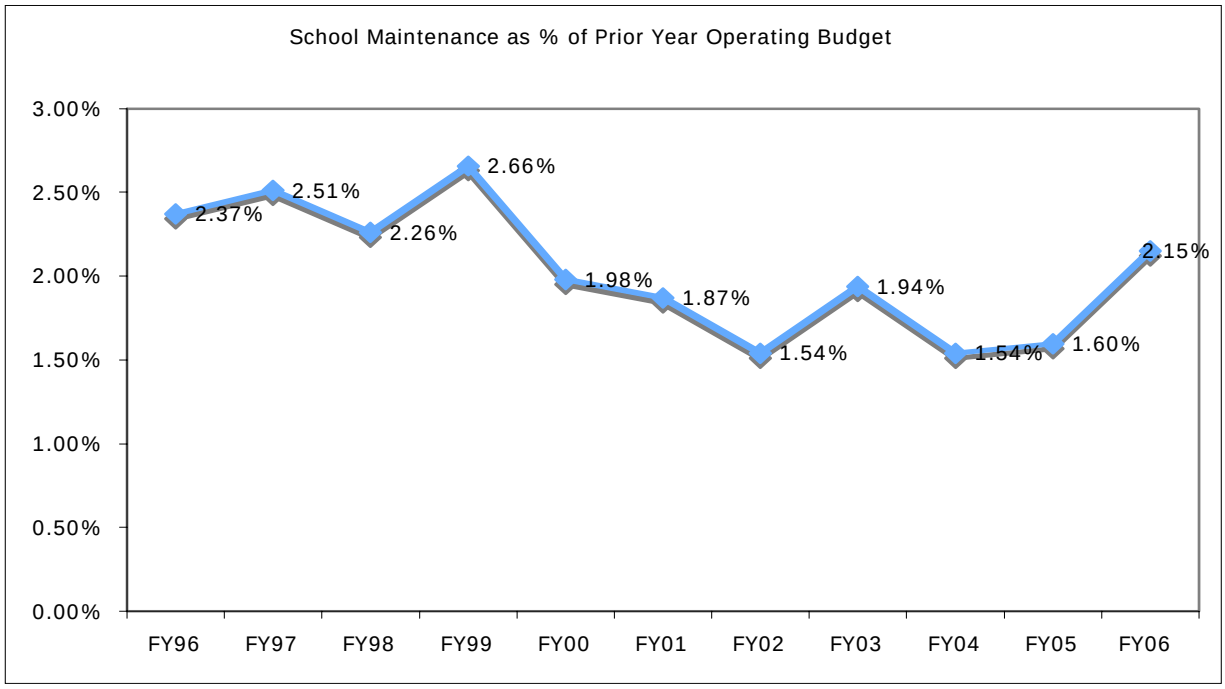
Newton Schools		Year Opened	School Rating
Elementary Schools	A E Angier ES	1921	3
	Underwood ES	1924	1
	Cabot ES	1929	3
	John Ward ES	1927	2
	Franklin ES	1939	2
	Lincoln-Eliot ES	1939	1
	Williams ES	1949	1
	Bowen ES	1950	2
	Pierce ES	1951	3
	Memorial Spaulding ES	1954	2
	Countryside ES	1953	2
	Zervas ES	1954	3
	Mason-Rice ES	1959	2
	Horace Mann ES	1964	2
	C C Burr ES	1962	1
Middle Schools	Bigelow MS	1970	2
	F A Day MS	1971	2
	Oak Hill MS	1930	1
	Charles E Brown MS	1956	3
High Schools	Newton South HS	1960	1
	Newton North HS	1973	3
Pre-Kindergarten	Newton ECC	1975	3

An integral component of the condition of assets is the amount of funds that are invested in their maintenance. Here again, the track record of school maintenance spending was reviewed. Section 4-3 of the Newton City Charter establishes the following standard for school maintenance spending:

(The School Committee shall) provide ordinary maintenance and repairs on all school buildings up to a maximum expenditure equal to two per cent of the School

Department's operating budget adopted for the preceding fiscal year.

Actual school maintenance spending was reviewed with an eye toward this guideline. For most of this decade, maintenance spending has fallen short of the 2% goal. Each half of a percent point below the goal is worth roughly $700,000 in annual maintenance.



Note: School maintenance includes annual spending on Charter Maintenance, several maintenance employees, shop supplies, and equipment repair.

How does Newton's debt compare with other communities?

It is worth looking at other Massachusetts cities and towns to compare capital investment levels. To do this, we looked at how Newton's debt load compares with other municipalities also holding the highest credit rating. Of the 351 cities and towns in Massachusetts, only 13 hold a Aaa credit rating from Moody's. These include the cities of Newton and Cambridge, as well as eleven other towns: Andover, Belmont, Brookline, Concord, Dover, Hingham, Lexington, Wayland, Wellesley, Weston and Winchester.

Below are tables that compare Newton's debt service and outstanding debt per capita with the other Massachusetts Aaa communities. The data shows that, relative to its peers,

Newton is underutilizing its debt capacity and, at least in terms of debt load, is a long way from jeopardizing its bond rating by taking on additional debt.

The table below shows FY05 debt service as a percent of the city or town's operating budget and also on a per capita basis. (In lay terms this would be like your annual mortgage payment on your house, compared to your total income, and divided by how many people live in your house.)

Massachusetts Municipal Debt Comparison -- "Triple A" Cities and Towns
Debt Service Percentages

				FY05 Debt Service		
Massachusetts City or Town	Bond Rating	Population	FY05 Operating Budget	Total	as % of Budget	per Capita
NEWTON	Aaa	83,802	284,263,989	9,268,477	3.26	111
BELMONT	Aaa	23,604	80,522,395	4,753,898	5.90	201
WINCHESTER	Aaa	21,167	69,349,047	4,164,645	6.01	681
WELLESLEY	Aaa	26,515	95,987,511	6,037,175	6.29	228
BROOKLINE	Aaa	56,188	190,006,170	13,297,623	7.00	237
WAYLAND	Aaa	13,063	54,149,052	4,344,097	8.02	333
HINGHAM	Aaa	21,198	65,073,817	5,406,278	8.31	255
CONCORD	Aaa	16,919	59,795,621	5,275,858	8.82	312
DOVER	Aaa	5,657	22,977,082	2,065,215	8.99	365
LEXINGTON	Aaa	30,419	126,855,608	11,456,346	9.03	377
CAMBRIDGE	Aaa	100,771	406,774,722	38,540,434	9.47	382
WESTON	Aaa	11,595	59,968,025	7,439,454	12.41	642
ANDOVER	Aaa	32,141	114,893,386	21,890,543	19.05	681
Average		34,080	125,432,033	10,303,080	8.21	302

Data Source: Municipal Databank, Local Aid Section, Division of Local Services, Mass. Dept. of Revenue. Website: http://www.dls.state.ma.us/mdm.htm

Notes: Bond Rating: Moody's 2006 bond rating; Population: 2004 Estimated US Census; Total FY05 Debt Service includes long term retired debt, long term interest and short term interest made this year on bond issues.

The next table shows the total debt outstanding in each community in FY05 and the amount per capita. (In lay terms, this would be like your total mortgage, divided by how many people live in your house.) It also shows the debt burden in relation to each community's assessed market valuation.

Massachusetts Municipal Debt Comparison -- "Triple A" Cities and Towns
Total Debt per Capita and Debt Burden as % Full Value

				FY05 Total Outstanding Debt		
Massachusetts City or Town	Bond Rating	Population	FY05 Operating Budget	Total	per Capita	Debt Burden (Direct Net Debt as % of Full Value)
NEWTON	AAA	83,802	284,263,989	109,108,798	1,302	0.5
BELMONT	AAA	23,604	80,522,395	36,642,476	1,552	1
BROOKLINE	AAA	56,188	190,006,170	113,749,348	2,024	0.8
WELLESLEY	AAA	26,515	95,987,511	58,430,474	2,204	0.6
HINGHAM	AAA	21,198	65,073,817	47,976,087	2,263	1
LEXINGTON	AAA	30,419	126,855,608	69,145,059	2,273	1
WAYLAND	AAA	13,063	54,149,052	33,522,436	2,566	1.4
CONCORD	AAA	16,919	59,795,621	44,113,385	2,607	0.9
CAMBRIDGE	AAA	100,771	406,774,722	276,696,981	2,746	0.6
WINCHESTER	AAA	21,167	69,349,047	62,002,542	2,929	1.2
ANDOVER	AAA	32,141	114,893,386	103,888,000	3,232	1.4
DOVER	AAA	5,657	22,977,082	19,358,799	3,422	1.3
WESTON	AAA	11,595	59,968,025	85,989,710	7,416	2.3
Average		34,080	125,432,033	81,586,469	2,394	1.1

Data Source: Municipal Databank, Local Aid Section, Division of Local Services, Mass. Dept. of Revenue. Website: http://www.dls.state.ma.us/mdm.htm Debt burden data provided by First Southwest Company.

Notes: Total outstanding debt refers to remaining principal payments that have not been paid off as of July 1 of the current fiscal year. Debt burden reflects direct net debt as a percentage of the full value of the property tax base.

As the tables indicate, the average debt service percent of budget for the 13 communities listed, including Newton, is 8.21%, compared to Newton's 3.26%. The average per capita debt service for the group is $302, compared with Newton's $111. The average debt outstanding per capita is $2,394, compared to Newton's $1,302. As a percent of budget and on a per capita basis, Newton's debt load is the lowest of its peers. Newton's debt as a percentage of the full value of its property tax base is also the lowest of its peers.

Maybe Newton could be proud of carrying the lowest level of debt -- if its capital assets were well maintained – but they are not. Our current level of capital spending is not sufficient to properly maintain our physical assets. Major and minor renovations of schools and other City buildings have been delayed, roadways and sidewalks are not replaced regularly, and public recreational facilities are in obvious need of attention. Our impressive Aaa rating signals our access to favorable borrowing rates, but it is not an indicator of the quality of life in our public buildings and public spaces.

In the section above, we recommended the use of general overrides to create a revenue source that would support a sustained annual level of capital maintenance expenses. In this section, we offer an additional proposal. In addition to the general override, a higher level of borrowing to provide the resources for capital reinvestment could be supported through debt exclusion ballot votes. In contrast to the general override, which does not create a dedicated allocation of property tax revenues, a debt exclusion vote permits taxpayers to approve or reject additional taxation for dedicated and specific capital purposes. We believe Newton can and should identify many such specific capital improvement investments that could be funded by debt exclusion overrides. Many of our Aaa peers use this tool frequently, as described in the table below. Every Aaa town has approved debt exclusion measures; only the cities of Newton and Cambridge have refrained from placing such initiatives before their voters.

Massachusetts Municipal Debt Comparison -- "Triple A" Cities and Towns
Summary of Debt Exclusion Votes

Massachusetts City or Town	Number of Elections containing Debt Exclusion Questions (1982 - 2006)	Number of Separate Debt Exclusion Questions posed in these Elections		
		Passed	Failed	Total
ANDOVER	2	3	1	4
BELMONT	7	6	1	7
BROOKLINE	2	2	0	2
CAMBRIDGE	0	0	0	0
CONCORD	10	11	2	13
DOVER	15	27	2	29
HINGHAM	9	12	4	16
LEXINGTON	3	5	0	5
NEWTON	0	0	0	0
WAYLAND	12	12	1	13
WELLESLEY	7	10	1	11
WESTON	29	70	0	70
WINCHESTER	2	2	0	2

Note: A ballot may contain one or more debt exclusion questions. The figures in column two above summarize the number of times towns have had debt exclusion elections over the 1982 to 2006 period. The figures in columns 3, 4, and 5 reflect the total number of separate debt exclusion questions placed those ballots over the 1982 to 2006 period and whether the questions passed or failed.

Data Source: Municipal Databank, Local Aid Section, Division of Local Services, Mass. Dept. of Revenue. Website: http://www.dls.state.ma.us/mdm.htm

Capital Investment Planning

In his 2006 State of the City address, Mayor Cohen announced a $250,000 funding request for a capital needs study of 25 of the largest municipal sites. Recently the School Department issued a request for proposals for architectural services to perform an assessment of Newton Public Schools' space and facilities needs, including cost and schedule

comparisons. The end product will be:

- an electronic database containing current information about the buildings
- a set of standards for elementary schools in the district
- an assessment of how each building conforms to these standards
- a recommended approach and timetable for addressing bringing buildings up to standard; and
- a hierarchy of needs with priorities listed.

These actions are welcomed by the Commission and are long overdue, although we recommend that the Mayor expand his proposal to include all City buildings. Capital investment should be needs driven, within fiscal constraints.

Recommendations

The Commission has examined the various measurements used by the rating agency and is of the opinion that the City could maintain its existing credit rating while significantly increasing its present level of outstanding debt and modestly extending its currently rapid debt retirement schedule.

While there are many measures used by the credit rating agency, one of the key measures is the City's debt in relation to its assessed market valuation. Newton ranks very low on this measure. Even if we assume the issuance of debt for Newton North High School, Newton would still have ample room on this measurement to support a more robust annual capital financing effort. It is not concern about maintaining the City's credit rating that imposes a practical limitation on higher debt levels, but rather the identification of the resources available to repay debt. At June 30, 2006, the City had $39.3 million in outstanding tax-supported debt. It is likely that this amount could be increased substantially and still remain within the parameters associated with a Triple-A rating.

In the following tables, the Commission has attempted to quantify the additional debt issuance for capital infrastructure investments that might be supportable within the existing debt management policy allocating 3% of the City's budget to debt service. We have also examined the debt financing that might be possible at higher allocation levels (4% and 5%) in each instance.

		Debt service Budget @			Increments		Additional Principal that could be supported	
Fiscal Year	Commission revenue forecast	3%	4%	5%	@ 4%	@ 5%	@4%	@5%
2008	$268,457,120	$8,053,714	$10,738,285	$13,422,856	$2,684,571	$5,369,142	$26,845,000	$53,690,000
2009	277,298,476	8,318,954	11,091,939	13,864,924	2,772,985	5,545,970	1,550,000	3,100,000
2010	285,553,085	8,566,593	11,422,123	14,277,654	2,855,531	5,711,062	1,540,000	3,080,000
2011	293,731,332	8,811,940	11,749,253	14,686,567	2,937,313	5,874,627	1,560,000	3,120,000
2012	304,091,067	9,122,732	12,163,643	15,204,553	3,040,911	6,081,821	1,820,000	3,640,000
					Total for five-year period:		$33,315,000	$66,630,000

Note: Making the simplifying assumption of 20-year debt at 5% interest, adding **1%** immediately to the debt service target cap for FY08 would support debt service on $26.8 million now and smaller additional amounts in subsequent years, totaling $33.3 million new issuance for the five-year period. Alternatively, following a strategy of increasing the debt service budget gradually over the five-year period FY08-12, raising the allocation by 0.2% steps to reach a **4%** target in year 5, would support about half as much new debt issuance - about $16.5 million - spread evenly over the period. Setting a **5%** target, either immediately or gradually, doubles these estimates. To the extent that some debt issuance purposes require a term of issue shorter than 20 years, these estimates would decrease.

The Commission is not prescribing a new debt management policy. Allocating a higher proportion of the City's budget to capital purposes is a complex matter that will involve considerable thought and careful evaluation of trade-offs within the existing budget. However, the Commission does conclude that the present level of annual capital spending is not sufficient to maintain the City's physical assets. A higher level of annual debt issuance to provide the resources for needed capital reinvestment could conceivably be supported through debt exclusion ballot votes – by which the taxpayers would decide whether to

approve or reject additional taxation for dedicated and specific capital purposes. Many of the Massachusetts communities with the highest credit ratings use this tool, along with operating overrides, to place before the voters decisions about maintaining the long-term municipal assets. If Newton's capital reinvestment program cannot be supported by a shift from within the existing budgetary resources, then we urge the City's consideration of this additional tool.

Closing the Gap

Introduction

The Commission was asked to "review what measures might be feasible to close any gap between anticipated expenses and anticipated revenues over the next five years, and if so, what they might be." The Commission determined that it did not have the time or resources needed to conduct a full scale efficiency review of the operations of City agencies. We did, however, consider the likelihood of substantial operational expenses savings and, as noted in the Budget section above, were unable to identify any that would be likely to make a substantial difference in the structural budget gap.

We did, however, review several potential revenue enhancement and cost-saving suggestions where we thought the budget gap could be reduced: PILOT (payment in lieu of taxes) programs, recycling, pension savings, energy efficiency, commercial development, and health insurance. As we discuss below, the greatest potential for closing the gap is in the area of pension fund management, but, even there, savings cannot be assumed to arrive until 2018 to 2020. If the City is persuasive with educational institutions with regard to PILOTs, it might be able to raise $1.5 to $4.0 million per year. Energy efficiency improvements might save about $2 million per year. Recycling enhancements would have a small affect, possibly $200,000 per year. While there are potential gap-closing measures in the area of commercial development and health insurance, we cannot quantify those.

PILOT Program

PILOTs are voluntary or negotiated payments made by tax-exempt organizations. The Dover Amendment* prevents Newton from having the political leverage of Boston and Cambridge, which are exempt from this law and receive significant PILOTs. Nonetheless,

* The Dover Amendment is the common name for MGL Chapter 40A, Section 3, which exempts agricultural, religious, and educational corporations from many zoning restrictions. It allows a facility that provides certain services, educational chief among them, to ignore local zoning laws and build the facility it needs to provide those services. The ability of local officials to challenge such a facility is very limited. Efforts to lobby the legislature to change this law have been unsuccessful.

we believe that the tax exempt properties, notably the colleges and universities, should contribute significantly more than they now do. Boston College pays Newton just $100,000 per year and other Newton colleges, including Mount Ida and Lasell, make no contributions. The arrangement with Boston College dates back about twenty years under an agreement negotiated by Mayor Theodore Mann.

It is instructive to see what other PILOTS have been negotiated. Boston, Cambridge and Providence, Rhode Island receive the following, as reported by the Newton Finance and Management Working Group, June 15, 2005:

CAMBRIDGE	
• Harvard	$1,772,264
• MIT	$1,223,000
• Whitehead Institute	$390,000
BOSTON	
• Boston University	$3,200,000
• Harvard	$1,600,000
• Boston College	$215,000
• Berklee School of Music	$175,000
• Northeastern	$137,000
PROVIDENCE (RI)	
• Split among 4 private universities	$2,500,000

While universities are among the largest PILOT contributors, PILOT revenues in other communities include other tax-exempt institutions. Boston's agreements with more than 40 institutions contribute as of 2003 more than $23 million annually to the city. In Cambridge, PILOTs total about $3.6 million. Watertown recently negotiated a PILOT with Harvard as a result of the University's purchase of the Arsenal Mall property. The town receives $1,747,625 in FY2007, and the amount climbs to $1,886,476 in FY2010, a yearly increase of approximately 2.7%.

Newton's tax-exempt entities own properties with an assessed value exceeding $1 billion. However, after excluding properties owned by governmental entities (city, state,

federal), religious institutions and the Newton Housing Authority, the assessed value of the remaining properties is $723,894,30, according to Elizabeth Dromey, Director of Assessment Administration. The assessed values of the land and buildings of the five post secondary education institutions are:

Boston College	$355,465,100
Lasell College	$55,412,000
Mt. Ida College	$38,451,000
Andover Newton Theological School	$2,541,800
Hebrew College	$3,517,400

If these five tax-exempt institutions were taxed at the appropriate residential or commercial rate, these schools would pay $5,915,160 in taxes.

We recognize that starting a significant PILOT program will be challenging for the City and these institutions. Yet the constraints placed on Newton by Proposition 2-1/2 suggest to us that these institutions might be open to a significantly greater financial contribution to Newton. These institutions directly benefit from the quality of service provided by Newton's police, fire and public works departments and indirectly through all services that contribute to the quality of life in the city.

While we do not minimize the political challenge of breaking from the historical pattern, we believe that now is the time to use the city's "bully pulpit" to engage the major tax-exempt educational institutions in negotiations about a more significant contribution to the city. A contribution at 75% of the assessed value of these post-secondary institutions would result in an annual PILOT of $4,465,121; at 50% the annual PILOT would be $2,993,637; and at 25% it would amount to $1,506,402.

Recycling

While Newton was once in the forefront of recycling, it has now fallen behind. According to Elaine Gentile, Director of Environmental Affairs, Newton could derive

substantial financial advantage by reducing the amount of trash and increasing the amount of recycling. Current revenues from recycling in the city are about $320,000, and there is the potential for cost savings and revenues of an additional $200,000 or more through both expanded school recycling and most significantly by enforcing existing city mandates.

While recycling was started in schools as an educational program, recycling now has also become a legitimate management responsibility. An audit of the school buildings could reveal what physical resources (e.g., cleaning stations) are needed to safely recycle paper, glass, tin and plastic and the options for negotiating with the custodial staff about this work. In the enforcement arena, the City could expand recycling revenues by starting a "No Visible Recycling Campaign" which would allow the DPW to "enforce" recycling by not picking up any recyclable material that is visible to the trash collectors. A sticker is affixed to the material urging the "violator" to recycle the next time. Other communities have carried out this and other program enhancements successfully. We recommend that the administration develop and implement a plan for Newton.

Pension Fund Management

As of January 1, 2006, the City of Newton had $253 million of actuarial assets ($246 million market value) in its pension plan. At that date the city had an unfunded actuarial accrued liability of $129 million. Projected out over 22 years, this totals, with interest, approximately $313 million. This is the amount that the city must pay over time into the retirement system. The implied actuarial rate for this is 8%.

The city currently has a pension board composed of representatives of the Firefighters' and Patrolmen's unions and one Mayoral appointee, unconfirmed by the Board of Aldermen. The City Controller serves as an ex officio member of the board, and a fifth member is selected, without confirmation, by the other four members. Segal Advisors, a pension consultant, has been employed by the board for 15 years.

For the past 10 years, the Newton plan has underperformed the Commonwealth of Massachusetts Pension Reserve Investment Trust ("PRIT") program on average by 1.43%, on an average base of $225 million. This underperformance has cost the plan, and therefore the City, over $30 million over this 10-year period. In the past year alone, the underperformance has exceeded 5%, for a cost of over $12 million. Each 1% in underperformance, at present, costs the taxpayers $2.5 million a year, increasing to more than $8 million per year by the time full-funding is expected to be achieved during FY2028, as this is the pay-in requirement for the pension shortfall.

The management of the Newton retirement plan should be moved to the PRIT plan. With $43.5 billion in assets, the PRIT plan has the advantage of in-house full-time professional managers and the choice of the highest rated money managers to manage the assets. It is very difficult for a fund the size of Newton's to attract the top managers, and this will continue. If the management of the Newton pension fund is shifted and only earns another 1% in return each year, then the pension shortfall will be reduced by approximately $65 million and will be fully funded eight years earlier than presently planned, or FY2020.

If the achieved difference in performance is true to the historical average differential of 1.43%, then a savings of more than $82 million would result from savings in interest alone. Investment returns would be increased by nearly $170 million. Total fund performance would be improved by more than $252 million, and the system will be fully funded ten years earlier than expected, or by FY2018.

In this day and age, almost all non-profit institutions have investment committees comprising money managers from either their boards of directors or local communities. Whatever choice the City makes with regard to management of its pension assets, it would behoove it to cull our very talented citizenry to create a volunteer/appointed investment committee to augment the existing committee. Although other municipalities have not done this as a matter of practice, Newton could set the standard and bring municipal pension management into the 21st century. In the meantime, at the minimum, the 2 unconfirmed appointees to the pension board should be from the investment community.

Energy Efficiency

During fiscal year 2007, Newton is expected to spend slightly more than $8 million on energy (electricity comprising 65%; natural gas, 15%; heating oil, 20%). By the end of FY2012, the yearly energy budget is expected to exceed $10.5 million. We believe that budgetary savings in the range of 20% of these amounts is achievable with a rigorous energy efficiency program.

In his 2006 State of the City address, Mayor David Cohen announced a study that would create "a priority list for bringing the interior systems and exterior conditions of our city buildings up to code, energy efficient, and safe." The Commission believes that this review should be complemented by energy audits in order to identify as many opportunities for improvement in energy use efficiency and sustainability, the "priority list" referred to by the Mayor. After being identified, these opportunities should be prioritized and evaluated by the use of standard life cycle costing, so that "first cost" of any project is not determinative. After a priority list of projects has been determined, financing options would need to be considered.

This possibility has been presented previously in another report to the City. As was noted in the May 2005 report of the *Newton Finance and Management Working Group*, chaired by Alderman Ken Parker, those options were, and remain, principally "...municipal bonding and performance contracting [Energy Services Company], in which a private entity finances design and implementation for a portion of the savings achieved." Of the two options noted, the *Newton Finance and Management Working Group* found "...municipal bonding to be preferable, since interest rates are lower, control is maintained locally, and more of the savings accrues to the City...". The 15% to 25% of project cost awarded to an Energy Services Company ("ESCO") is in addition to the project cost and represents a variable amount of total energy savings achievable by the City. This high cost must be viewed in light of services provided by the ESCO and guaranteed savings. It must also be viewed in light of the practical outcome that the projects producing the largest savings and accordingly highest ROI's and shortest paybacks will be the most likely projects undertaken, leaving many other

worthwhile projects not undertaken for want of sufficiently high early cost savings.

Revenue from Commercial Property

The City receives property revenue from two sources: 1) property taxes, and 2) taxes on new growth construction. During the past 20 years, there has been a dramatic increase in the percentage of property taxes that are derived from residential properties (73% in 1986 to 83% in 2005), and a corresponding decrease in the amount derived from industrial and commercial properties. This rise is primarily attributable to the faster rise in residential property values than that of commercial values. However, New Growth revenues have also moved almost entirely to residential construction (86% in 2006, compared to 49% in 2001 or 55% in 1992), with very little new commercial construction during 2005 or 2006. And Newton's New Growth revenues per capita at $26 in 2005 are the lowest of nine surveyed neighboring towns, and one-fifth of the New Growth seen in Cambridge – a city with vibrant new development.

Traditionally Newton has held a healthy balance in its residential/commercial split, with less commercial property than Cambridge and Waltham, but far more than the further western suburbs of Lexington, Wellesley or Weston. For this reason, we wanted to examine the potential opportunities for reversing or stabilizing the trend of residential properties carrying an increasing share of the tax burden.

However, we discovered two fundamental impediments to increasing revenues from commercial properties:

1) A lack of available parcels that could be put together for a meaningfully-large commercial property of the size to hold an office park or a small research facility; and

2) Current zoning laws and permitting procedures (including review of major projects by the entire Board of Alderman) that implicitly and explicitly discourage commercial development (specifically projects in excess of 20,000 square feet).

These issues have been examined in great depth by the Comprehensive Planning Advisory Committee, who issued a thoughtful planning advisory guide which is currently under review by the Board of Alderman. One of the conclusions of this Plan is, "while development makes an important contribution to the community's economic health, this City can't rely on building as a primary means of resolving fiscal strains." (page 10-9) The Plan does not recommend an overhaul of the current zoning laws or procedures (to a more commonly-practiced 6-member Zoning Board charged with implementing and interpreting clearly delineated regulations). Instead, this Plan recommends incremental change, as exemplified by the Seven Early Action Efforts, including clarification of home business zoning, or preferential treatment for special permits which utilize green design.

Our discussions with developers who are active and interested in Newton indicate that there might be some opportunity to attract new development via a necessary change to antiquated zoning regulations for Mixed Use Districts (co-located residential and commercial) development. Mixed-use development is currently very popular with developers as one of the most financially-viable vehicles. Newton's Mixed Use zoning needs to be modified to allow more reasonable density, as well as to have several measurements – lot area per unit, FAR, yards, maximum height, and building coverage – work together reasonably, (which is currently not the case.)

However, even with necessary zoning changes, without a more comprehensive change to Newton's permitting procedure, commercial development is not likely to increase dramatically within the city. We believe that the City should consider changes in both of these arenas. We are not suggesting, by this recommendation, that the City retreat from its desire to maintain a high quality of life, space, and environment. Instead, we offer the opinion that those goals can be met while also enhancing the possibility of commercial property tax revenues. Nonetheless, for purposes of this report, we impute no increase in revenues to such possible changes.

Health Insurance Savings

Newton's average increase in health insurance costs over the past ten years has been about 11% per year. The city offers two health insurance options to all current and retired employees, their spouses, and dependants. The city currently contributes 80% of the cost. The city is self-insured and uses Tufts Health Plan and Harvard Vanguard to provide services as third party administrators (TPAs). As such, Tufts and Harvard structure plans and pay claims on behalf of the city and but the city is responsible for all costs. The city maintains a "stop loss" insurance policy that protects the city in case a single claim or a series of claims exceeds an agreed upon threshold.

The city bids the TPA contracts out annually and keeps two providers in order to maintain competition and keep costs down. In addition the city has adjusted co-pays and deductibles frequently to remain competitive and current levels ($15 for office visits, $50 for emergency room visits, and $150 per inpatient admission) are competitive with what other cities and towns, and other organizations, are using in their policies. On December 1, 2004, the city began by purchasing drugs from Canada as another cost-saving measure. At first, this program cost the City slightly more money, but it saved money for the employees. The City is now saving money with the addition of a generic and over-the-counter drug program. Savings to date are estimated at $15,000.

Most of Newton's 2680 current employees are members of a union (only about 325 are not), and by state law health care is subject to collective bargaining. Changing the employee contribution, which shifts costs and future increases to employees, and all other changes in plan design must be negotiated. The City is subject to State regulation under General Laws Chapter 32b and must contribute at least 50% of the cost of health insurance. Newton currently contributes 80%. The City last surveyed other cities and towns in May of 2003 when the average city/town contribution was 76%, with towns tending to be closer to 50% and cities tending to be far higher.

In addition to active employees, the city insures about 2245 retirees. The retiree group includes members of the Board of Aldermen, the Election Commission, the School

Committee and other elected officials because they are defined as employees under state law. They get the same benefits, including health insurance, retirement, and life insurance -- including post retirement benefits -- as do all other Newton employees.

One possible route for future savings would be to revive a May 2006 attempt to exempt health insurance from collective bargaining, as has been done at the state level. Several years ago, the state passed legislation exempting health insurance from collective bargaining for state employees. In the spring of 2006, the Legislature considered a similar bill that would have exempted health insurance from collective bargaining for cities and towns as well. The Massachusetts Municipal Association had issued a report in 2005 on the health care crisis that strongly advocated for such legislation and provided data relative to the effect of rising health care costs on municipal budgets. The report stated that health care costs for cities and towns rose an average of 63% from 2001 to 2005, consuming approximately four out of every five dollars of the 2.5 percent annual growth in taxes on existing properties allowed under Proposition 2-1⁄2.

One other possible future route for savings would be to join the state health insurance plan. The state's Group Insurance Commission ("GIC") has been at the forefront of design health insurance plans for state employees that target cost savings and quality improvements. Newton, on its own, probably does not have sufficient number of beneficiaries to negotiate such extensive improvements to its employees' health plans. This option for municipalities to join the GIC is not available at this time, but it is under consideration at the state level. We encourage the City to explore this option fully if the opportunity arises.

Finally, the City has considered treating retirees differently than current employees, which is allowed outside of collective bargaining; however some retirees' pensions do not cover their portion of the premium at the 20% contribution rate, so the City is reluctant to increase their contribution rate.

In summary, in the absence of a change in state law, the city has a few options for cost savings with regard to health care. Were the law to change with regard to collective bargaining, the city would have the ability to make changes to health benefits without

needing to negotiate every aspect, providing for the possibility to build in incentives and make smaller and more frequent changes in line with the marketplace. The possibility of joining a state plan might also enable the city to take part in innovative health care cost and quality programs by the state's GIC. For purposes of this report, however, we cannot assume that either of these changes will be enacted, and so we have included no potential savings in this arena.

City of Newton Blue Ribbon Commission
Member Biographies

Paul Levy (Chair) – Paul F. Levy has been President and Chief Executive Officer of Beth Israel Deaconess Medical Center since January 2002. Beth Israel Deaconess is major patient care, research and teaching affiliate of Harvard Medical School, with annual revenues of over $1 billion.

Mr. Levy served as Executive Dean of Harvard Medical School before joining BIDMC. He established a national reputation as an administrator with his service as the executive director of the Massachusetts Water Resources Authority, the agency charged with the clean up of Boston Harbor, one of the largest pollution control projects in the world. He has also served as chairman of the Massachusetts Department of Public Utilities and Director of the Arkansas Department of Energy.

Before joining Harvard Medical School, Mr. Levy was adjunct professor of environmental policy at MIT, where he taught infrastructure planning and development and environmental policy for seven years. He also maintained an independent consulting practice, providing strategic, negotiation and regulatory advice to firms and governments in the energy, water and telecommunications arenas. In 1996, he helped create the PowerOptions program with the Massachusetts Health and Educational Facilities Authority, providing millions of dollars in energy savings to non-profit organizations and municipalities through the group purchase of electricity and natural gas.

He holds bachelor's degrees in Economics and Urban Studies and Planning, and a Master's in City Planning from MIT.

Amelia Koch – Ms. Amelia Koch, a CPA, is currently the Vice President for Finance at Berklee College of Music. Berklee, with 3,800 students, is the world's largest independent music college and the premier institution for the study of contemporary music. Prior to starting at Berklee in February of 2006 Ms. Koch worked for 13 years at the Rhode Island School of Design (RISD), the last four as Associate Vice President for Finance. At RISD,

Ms. Koch was responsible for all aspects of finance and accounting including long range financial planning and analysis. The long range plans served as the decision platform for numerous capital projects including the purchase of a 500 bed dormitory and the construction of RISD's landmark museum expansion which is currently under construction. Earlier in her career, Ms Koch worked at Wellesley College for 8 years after earning her CPA at the Boston office of Cooper's and Lybrand. Ms. Koch has lived in Newton for 19 years, her daughters attended Countryside School, Brown Junior High, and both Newton North and South High Schools. Ms. Koch has been active in the Newton League of Women Voters for many years.

Tony Logalbo – Mr. Logalbo is the Finance Director for the Town of Concord. He has been a resident of Newton Centre for 29 years, and his two children graduated from Newton South. He has been active in several municipal finance organizations, including acting as president of the Mass. Collector and Treasurers Association and the Mass. chapter of the American Society for Public Administration. He was one of the founders of the Massachusetts Government Finance Officers Association. Mr. Logalbo has been active in Newton civic organizations, serving as President of the Center for Independent Documentaries and as Treasurer for the Foundation for Racial, Ethnic and Religious Harmony. He is a graduate of Rensselaer and holds a Master of Science degree from the Krannert School of Industrial Administration at Purdue University and an MPA from the Kennedy School of Government.

Sarah Ecker – Ms. Ecker has over six years of experience in municipal finance and is also an attorney. She served as a budget and policy advisor to the Mayors of San Francisco and New York City. Ms. Ecker was a citizen member of the Newton North High School Citizens' Task Force and performed sub-committee work related to debt service, bond ratings, and borrowing practices of the City. Last winter, Ms. Ecker volunteered her public budget expertise to improve Newton's city budget process. She worked with each department head to write descriptions of the departments' goals and accomplishments. These documents were designed to encourage substantive policy discussions during the budget

approval process. Her considerable background in committee work while working for city governments has honed her skill in working with groups to identify needs, analyze data, discuss alternatives, seek consensus, and prepare recommendations and reports. Ms. Ecker has a son at Day Middle School and a daughter at Cabot School. She has been a Newton resident since 1997.

Jane O'Hern – Ms. O'Hern has nearly 20 years of experience in public and non-for-profit finance. She was a budget director for MBTA and head of the revenue estimating function for the State of Massachusetts. Ms. O'Hern now works as an independent consultant and in that capacity prepared the 1996 Newton school budget and served as Interim Budget Director for the system. She has two children, one of whom graduated from Newton North High School and the other who is a sixth grader at Day Middle School.

George Foord – For more than thirty years, Mr. Foord has been advising individual and business clients with respect to their financial and tax concerns and assisting them in complying with governmental and other financial and accounting requirements. A veteran of several National CPA firms, as well as of his own local firm, he has interacted with senior executives of Fortune 500 companies and proprietors of "Mom and Pop" stores. Mr. Foord possesses advanced degrees in Business Administration and Taxation. A long time CPA, he has maintained professional memberships with the Massachusetts Society of CPAs ("MSCPA") and the American Institute of CPAs ("AICPA"). As a community activist, he has been successful in influencing the Massachusetts General Court and Newton Board of Aldermen in making changes in law and regulation to the benefit of the community.

Ruthanne Fuller – Ruthanne Fuller is a citizen activist with broad education and experience in government and nonprofit organizations. Ms. Fuller received her undergraduate degree from Brown University and earned a Masters in Business Administration with distinction from the Harvard Business School. When she lived in Brookline, Ms. Fuller co-chaired the town's Financial Planning Advisory Committee from 1993 – 1994, as well as served on the town's Brookline Finance Committee and chaired its Strategic Planning Sub-Committee. Ms.

Fuller also sits on the boards of a number of nonprofit organizations, such as the Boys & Girls' Club of Boston and Facing History and Ourselves, as well as being actively involved in WGBH public television and the United Way of Massachusetts Bay. She lives with her family in Newton where she is currently President of the longstanding neighborhood organization, The Chestnut Hill Association.

Matt King –Mr. King is the Superintendent of Schools for the Town of Wellesley. Mr. King received a Bachelor of Arts degree from Colgate, an M.A.T. from Smith College, and an Ed.D. from Harvard University. He started his career as a teacher at Weeks Junior High School in Newton and spent 10 years as Superintendent/Principal of the Carlisle Public Schools, and 7 years as Superintendent/Principal of Lincoln-Sudbury Regional High School before coming to Wellesley in 1996. Mr. King and his family have lived in Newton since 1980, and his two sons graduated from Newton North High School.

Malcolm Salter – Malcolm S. Salter is a former Senior Associate Dean and chaired Professor at the Harvard Business School, where he earned his masters and doctoral degrees. He is also president of Mars & Co., a strategy consulting firm with offices in the United States, Europe and Asia. His teaching and scholarship has focused on corporate strategy, organization and governance, and most recently on the lessons to be learned from the collapse of the Enron Corporation. A longtime resident of Newton, he also serves a Trustee and Director of the Dana Farber Cancer Institute, where he serves on the Finance Committee, and has also served as an Overseer for the Boston Museum of Fine Arts.

Betsy Harper – Ms. Harper has over 20 years of experience in various financial positions, having started her career on Wall Street and proceeding as a management consultant to financial institutions while employed by McKinsey & Co. in New York City. Ms. Harper returned to the Boston area and then specifically to Newton Corner 15 years ago to work for Putnam Investments and then Wellington Management Company. She is currently employed by RCG LLC, a real estate development firm, where Betsy focuses on financing and building urban multi-family residences that are significantly more energy and water efficient than is

standard practice. Ms. Harper sits on the City's High Performance Buildings Coalition. She is also a member of the Building and Grounds Committee (facilitating the construction of "green" new buildings) for Shady Hill School. Betsy has a First Grader at Cabot School and has organized parents there to gradually repaint the school's bathrooms in various themes. She was a Williams College '79, Economics major and a Harvard Business School '84 graduate with honors.

Sheryl Marshall – Sheryl Marshall has spent over twenty-five years on Wall Street where she has raised and managed over 100 million dollars as both a High Net Worth financial advisor and most recently as the founder of a venture capital firm, Axxon Capital. Prior to founding Axxon, she was a Vice-President at several prestigious Wall St. firms including Donaldson, Lufkin, Jenrette and Drexel Burnham Lambert where she was a top achiever.

In February of 1995, President Clinton appointed Ms. Marshall to the Federal Retirement Thrift Investment Board that oversees $100 billion of 401(k) money for Federal employees. Ms. Marshall was also appointed by Governor William Weld to chair the Investment Committee and serve on the board of the Massachusetts Thrift Fund. She is currently on the board of Daffy's; a NY based retailer. She also served on the board of Flighttime, a business-to-business air charter company and MarketMax, a retail software optimization company as well as serving as a board observer for many other companies. In addition, Ms. Marshall serves on the boards of many non-profit organizations and was on the board of the International Women's Forum, the Massachusetts Women's' Forum and the Brigham and Women's Hospital, among others. She is currently a trustee at the Institute of Contemporary Art. She has received many community awards including the Alumni Achievement Award from the School of Management at Simmons College and the Woman of the year for Big Sisters. Ms. Marshall received her B.A. from Emerson College and her M.B.A from Simmons College. She is a frequent speaker on issues relating to investments and women and money. She resides in Newton, Massachusetts with her husband.

Exhibits and Appendices

Exhibit 1

CITY OF NEWTON, MASSACHUSETTS
BLUE RIBBON FINANCE COMMISSION
MAJOR ASSUMPTIONS OF FORECASTS

	City's Forecast (September 22, 2006)	Commission's Forecast (January 3, 2007)
Financial sources:		
Property taxes	$2 million annual new growth less 1.4% of levy for abatements	$2.2 million annual new growth increasing by 2% per year less 1% of levy for abatements
Motor excise taxes	2% annual increase	2% annual increase
Other taxes, interest & penalties	1% annual increase	1% annual increase
In lieu of tax payments	Level funded	Level funded
Charges for service	4% annual increase	4% annual increase
Licenses & permits	Level funded @ $4.8 million per year	Level funded @ $4.8 million per year
Fines & forfeitures	Level funded	Level funded
Investment income	Level funded	Level funded
Other miscellaneous revenue	Level funded	Level funded
Free Cash	$500,000 per year annual reduction to $0	$500,000 per year annual reduction to $0
Intergovernmental revenue	Level funded except for changes in School Building assistance grant payment schedule	Mayor's forecast assumptions plus $1.4 million in new state aid per year
Reimbursements from other funds	Level funded	Level funded
Financial uses		
Operating budget		
Salaries & wages	School contract steps only - no collective bargaining adjustment	School contract steps, plus 2.5% annual wage and salary increase, plus staff increases to serve additional school enrollment
Benefits	Health insurance expenditures @ 11% growth per year - no actuarial funding	Health insurance expenditures @ 11% growth per year - no actuarial funding plus benefits for additional staff to serve additional school enrollment
Pension contribution	Actuarial funding schedule	Actuarial funding schedule
Energy/utilities	5% annual increase	5% annual increase plus funding to serve additional school enrollment
Refuse collection/disposal	3.5% annual increase	3.5% annual increase
Out of district education tuitions	8% annual increase	8% annual increase
School transportation	10% annual increase	10% annual increase
Services	2% annual increase	2% annual increase
Supplies and materials	2% annual increase	2% annual increase plus funding to serve additional school enrollment
Capital outlay	Level funded	4% annual increase in expenditures plus funding to serve additional school enrollment
Other - unclassified	Contingency @ 1% of budget - all other level funded	Contingency @ 1% of budget - all other level funded
State assessments and charges	2.5% annual increase	2.5% annual increase
Capital and Capital Reserves		
Debt service	Mayor's capital plan	Mayor's capital plan
Fund for Future Capital Needs	Mayor's capital plan	Mayor's capital plan
Supplemental capital maintenance	Not addressed	3% of estimated capital replacement value for buildings, plus $200,000 per year in additonal debt service for road and street infrastructure

Exhibit 2

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND MULTI-YEAR BUDGET FORECAST
FORECAST SUMMARY - CITY'S FORECAST UPDATED FOR ACTUAL TAX LEVY (September 22, 2006)

	FY 2007 Budget	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast
Sources:						
Property taxes	$ 205,603,998	$ 212,696,697	$ 219,986,114	$ 227,457,768	$ 235,116,211	$ 242,966,117
Motor excise taxes	10,964,687	11,232,219	11,481,035	11,735,363	11,995,324	12,261,044
Other taxes, interest & penalties	1,918,396	1,923,529	1,943,086	1,962,843	1,982,800	2,002,961
In lieu of tax payments	385,072	418,202	418,202	418,202	418,202	418,202
Charges for service	1,551,434	1,676,909	1,728,137	1,781,500	1,837,090	1,894,999
Licenses & permits	3,113,057	4,760,762	4,760,762	4,760,762	4,760,762	4,760,762
Fines & forfeitures	1,900,512	1,825,235	1,825,235	1,825,235	1,825,235	1,825,235
Investment income	1,400,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Other miscellaneous revenue	3,056,972	868,270	868,270	868,270	868,270	868,270
Free Cash	4,620,972	1,200,000	700,000	200,000	-	-
Intergovernmental revenue	22,821,402	23,523,329	23,496,109	22,637,563	21,390,789	21,387,124
Reimbursements from other funds	2,779,245	2,815,810	2,853,472	2,892,264	2,932,219	2,973,373
Total Sources:	260,115,747	265,940,961	273,060,421	279,539,769	286,126,903	294,358,087
Uses:						
Operating Budget						
Salaries & wages	152,193,862	152,577,953	154,223,771	155,825,353	157,567,265	159,411,808
Benefits	38,407,820	42,371,709	46,692,753	51,488,643	56,812,237	62,722,327
Pension contribution	10,944,381	11,935,973	12,490,025	13,072,042	13,683,431	14,325,667
Energy/utilities	9,247,463	9,709,836	10,195,328	10,705,094	11,240,349	11,802,367
Refuse collection/disposal	5,859,472	6,064,554	6,276,813	6,496,501	6,723,879	6,959,215
Out of district education tuitions	5,467,561	5,904,966	6,377,363	6,887,552	7,438,556	8,033,641
School transportation	3,939,616	4,333,578	4,766,935	5,243,629	5,767,992	6,344,791
Services	8,748,398	8,921,976	9,105,975	9,286,566	9,470,768	9,658,655
Supplies and materials	5,049,315	5,150,301	5,253,307	5,358,373	5,465,541	5,574,852
Capital outlay	1,638,876	1,638,876	1,638,876	1,638,876	1,638,876	1,638,876
Other - unclassified	1,934,093	3,810,894	3,902,985	3,989,479	4,074,892	4,175,632
State assessments and charges	5,478,619	5,615,584	5,755,974	5,899,873	6,047,370	6,198,555
Planned savings	16,902	2,654,765	2,725,826	2,790,482	2,856,212	2,938,380
Operating budget subtotal	248,926,378	260,690,966	269,405,933	278,682,464	288,787,369	299,784,765
Capital and Capital Reserve Creation						
Debt service	9,631,318	7,279,519	7,470,440	7,666,371	7,867,440	8,073,782
Transfer to Capital Fund	1,558,051	3,018,094	3,268,094	3,209,957	2,217,041	2,467,041
Capital Maintenance Subtotal	11,189,369	10,297,613	10,738,534	10,876,328	10,084,481	10,540,823
Total Uses:	$ 260,115,747	$ 270,988,579	$ 280,144,467	$ 289,558,792	298,871,850	310,325,588
Excess/(deficiency) Sources over Uses before collective bargaining or additional state aid	-	**$ (5,047,617)**	**$ (7,084,046)**	**$ (10,019,023)**	**$ (12,744,947)**	**$ (15,967,501)**
Assume $1.4 million of new state aid each year		**$ (3,647,617)**	**$ (4,284,046)**	**$ (5,819,023)**	**$ (7,144,947)**	**$ (8,967,501)**
Assume $2.8 million of new state aid each year		**$ (2,247,617)**	**$ (1,484,046)**	**$ (1,619,023)**	**$ (1,544,947)**	**$ (1,967,501)**

Exhibit 3

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND MULTI-YEAR BUDGET FORECAST
COMMISSION'S FORECAST (PRELIMINARY)

	FY 2007 Budget	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast
Sources:						
Property taxes	$ 205,603,998	$ 213,812,856	$ 221,424,169	$ 229,271,084	$ 237,120,640	$ 245,699,097
Motor excise taxes	10,964,687	11,232,219	11,481,035	11,735,363	11,995,324	12,261,044
Other taxes, interest & penalties	1,918,396	1,923,529	1,943,086	1,962,843	1,982,800	2,002,961
In lieu of tax payments	385,072	418,202	418,202	418,202	418,202	418,202
Charges for service	1,551,434	1,676,909	1,728,137	1,781,500	1,837,090	1,894,999
Licenses & permits	3,113,057	4,760,762	4,760,762	4,760,762	4,760,762	4,760,762
Fines & forfeitures	1,900,512	1,825,235	1,825,235	1,825,235	1,825,235	1,825,235
Investment income	1,400,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Other miscellaneous revenue	3,056,972	868,270	868,270	868,270	868,270	868,270
Free Cash	4,620,972	1,200,000	700,000	200,000	-	-
Intergovernmental revenue	22,821,402	24,923,329	26,296,109	26,837,563	26,990,789	28,387,124
Reimbursements from other funds	2,779,245	2,815,810	2,853,472	2,892,264	2,932,219	2,973,373
Total Sources:	260,115,747	268,457,120	277,298,476	285,553,085	293,731,332	304,091,067
Uses:						
Operating Budget						
Salaries & wages	152,193,862	157,331,588	164,344,955	171,521,347	177,443,127	185,218,331
Benefits	38,407,820	42,550,909	47,074,833	52,062,083	57,560,397	63,666,967
Pension contribution	10,944,381	11,935,973	12,490,025	13,072,042	13,683,431	14,325,667
Energy/utilities	9,247,463	9,729,561	10,215,053	10,724,819	11,260,074	11,822,092
Refuse collection/disposal	5,859,472	6,064,554	6,276,813	6,496,501	6,723,879	6,959,215
Out of district education tuitions	5,467,561	5,904,966	6,377,363	6,887,552	7,438,556	8,033,641
School transportation	3,939,616	4,333,578	4,766,935	5,243,629	5,767,992	6,344,791
Services	8,748,398	8,921,976	9,105,975	9,286,566	9,470,768	9,658,655
Supplies and materials	5,049,315	5,295,801	5,495,807	5,600,873	5,708,041	5,817,352
Capital outlay	1,638,876	1,827,011	1,976,908	2,047,813	2,121,553	2,198,243
Other - unclassified	1,934,093	3,836,055	3,945,366	4,049,612	4,150,937	4,272,962
State assessments and charges	5,478,619	5,615,584	5,755,974	5,899,873	6,047,370	6,198,555
Planned savings	16,902	-	-	-	-	-
Operating budget subtotal	248,926,378	263,347,557	277,826,009	292,892,712	307,376,126	324,516,470
Capital and Capital Reserve Creation						
Debt service	9,631,318	7,279,519	7,470,440	7,666,371	7,867,440	8,073,782
Fund for future capital needs	1,558,051	3,018,094	3,268,094	3,209,957	2,217,041	2,467,041
Supplemental capital maintenance	-	950,000	1,900,000	2,850,000	3,800,000	4,750,000
Capital Maintenance Subtotal	11,189,369	11,247,613	12,638,534	13,726,328	13,884,481	15,290,823
Total Uses:	$ 260,115,747	$ 274,595,170	$ 290,464,543	$ 306,619,040	321,260,607	339,807,293
Excess/(deficiency) Sources over Uses	**$ -**	**$ (6,138,050)**	**$ (13,166,068)**	**$ (21,065,955)**	**$ (27,529,275)**	**$ (35,716,226)**

Commission's Forecast sources

	Fiscal year	$ in millions	growth rate
Budget	2007	$260.1	
Forecast	2008	$268.5	3.2%
	2009	$277.3	3.3%
	2010	$285.6	3.0%
	2011	$293.7	2.8%
	2012	$304.1	3.5%

Commission's Forecast

Uses

	Fiscal year	$ in millions	growth rate	$ in millions	growth rate
		OPERATING BUDGET		CAPITAL PURPOSES	
Budget	2007	$248.9		$11.2	
Forecast	2008	$263.3	5.8%	$11.2	0.0%
	2009	$277.8	5.5%	$12.6	12.5%
	2010	$292.9	5.4%	$13.7	8.7%
	2011	$307.3	4.9%	$13.9	1.5%
	2012	$324.5	5.6%	$15.9	14.4%

Commission's Forecast

Annual Gap

	Fiscal year	$ in millions	as % of sources	as % of uses
Budget	2007	$0.0		
Forecast	2008	$6.1	2.3%	2.2%
	2009	$13.2	4.8%	4.5%
	2010	$21.1	7.4%	6.6%
	2011	$27.5	9.4%	8.6%
	2012	$35.7	11.7%	10.5%

For this forecast exercise, each year assumes the preceding year's gap has not been resolved. In real life, each budget will be balanced somehow before proceeding to the next year.

Over the five years, cumulatively, forecasted expenditures exceed forecasted revenues by about 7% ($1.532 billion expense vs. $1.429 billion revenue)

Moody's Rating Definitions

Long-Term Ratings

Aaa *Bonds and preferred stock rated* **Aaa** *are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin, and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.*

Aa *Bonds and preferred stock rated* **Aa** *are judged to be of high quality by all standards. Together with the* **Aaa** *group, they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in* **Aaa***-rated securities, or the fluctuation of protective elements may be of greater amplitude, or there may be other elements present that make the long-term risk in* **Aa***-rated bonds appear somewhat larger than those securities rated* **Aaa***.*

A *Bonds and preferred stock rated* **A** *possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. The factors that give security to principal and interest are considered adequate, but elements may be present that suggest a susceptibility to impairment some time in the future.*

Baa *Bonds and preferred stock rated* **Baa** *are considered to be medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present, but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and, in fact, possess speculative characteristics as well.*

Ba *Bonds and preferred stock rated* **Ba** *are judged to have speculative elements; their future cannot be considered as being well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well-safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.*

B *Bonds and preferred stock rated* **B** *generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.*

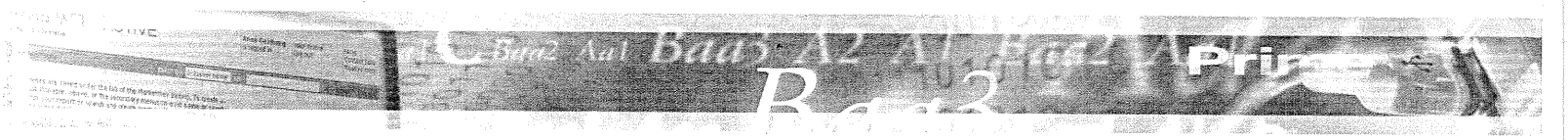
Caa *Bonds and preferred stock rated* **Caa** *are of poor standing. Such issues may be in default, or there may be present elements of danger with respect to principal or interest.*

Ca *Bonds and preferred stock rated* **Ca** *represent obligations that are speculative in a high degree. Such issues are often in default or have other marked shortcomings.*

C *Bonds and preferred stock rated* **C** *are the lowest-rated class of bonds. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.*

Moody's assigns ratings to individual long-term debt securities issued from MTN programs, in addition to indicating ratings for medium-term note (MTN) programs themselves.

Moody's Investors Service



STANDARD &POOR'S

PUBLIC FINANCE

Top 10 Management Characteristics Of Highly Rated Credits In U.S. Public Finance

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Standard & Poor's Ratings Services has widely disseminated information to investors and issuers outlining how a credit rating is established in U.S. Public Finance. We have also developed representative ranges for key ratios that factor into tax-backed credit quality. These ratios are the foundation of the quantitative measures Standard & Poor's uses when establishing a credit rating. Ratios and comparisons are used to fine-tune credit analysis and help to make credit distinctions. For bond issuers, credit ratios are often used as a framework for making comparisons, with the focus often on improving a credit rating.

In addition to quantitative factors, qualitative information factors heavily into credit analysis. Management factors, administrative characteristics and other structural issues facing a government entity can be an overriding factor in a rating outcome. Management can contribute significantly to many of the individual credit ratios and can positively affect ratings in a number of ways. Conversely, the lack of strong management can be a significant factor in a weak credit profile. The economy will play a key role in determining a rating category, but management will be one of the deciding factors in fine-tuning the rating. The management or administrative structure of a government can move a rating up or down more significantly and swiftly than any other element of a credit review.

When assessing management, Standard & Poor's includes analysis of the political framework that governs it, as well as the day-to-day management staff. There could be a strong management team in place, but if there is political instability or lack of political will to make difficult decisions, management will be ineffective in many cases. Standard & Poor's also focuses on the "whole of government." Oversight and management controls covering all of the disparate operations of a government with a focus on accountability at each department or function are critical to strong credit rating.

The "Top 10" list of management characteristics associated with Standard & Poor's highly rated credits is generally applicable to other enterprise operations of government such as water, sewer, or solid waste. The relative importance of these factors may vary from credit to credit. It is important to remember that credibility is an important part of a rating review process and management assessment. Every government has challenges. Identifying problems or issues, and detailing how these will be addressed establishes credibility and greater transparency in the rating process.

Top 10 List

1. An established rainy day/budget stabilization reserve

A formalized financial reserve policy is a consistent feature of most of Standard & Poor's highly rated credits. It has been standard operating procedure for some governments for decades. Others focused attention on this following the recession of the early 1990s, and again in 2001 when many regions of the country experienced sustained revenue weakness that required severe budget reduction measures. Reserves provide financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner. No one level or type of reserve is considered optimal from Standard & Poor's perspective. Many different types of reserves have factored into an improved government credit profile. Some important considerations when establishing a reserve are:

- The government's cash flow/operating requirements;
- The historic volatility of revenues and expenditures through economic cycles;
- Susceptibility to natural disaster events;
- Will the fund be a legal requirement or an informal policy;
- Are formal policies established outlining under what circumstances reserves can be drawn down; and
- Will there be a mechanism to rebuild reserves once they are used.

It is important to keep in mind that use of budget stabilization reserves is not in and of itself a credit weakness. The reserves are clearly in place to be used. A balanced approach to using reserves is important in most cases, however, because full depletion of reserves in one year without any other budget adjustments creates a structural gap in the following year if economic trends continue to be weak.

2. Regular economic and revenue reviews to identify shortfalls early

Having a formal mechanism to monitor economic trends and revenue performance at regular intervals is a key feature of stable financial performance. This is particularly true if a government relies on income tax or consumption-based taxes that respond rather quickly to economic fluctuations. Evaluating historical performance of certain revenues is important to this analysis because each government will have different leading or lagging economic indicators that signal potential revenue variance issues based on their economic structure. The earlier revenue weakness is identified in the fiscal year, the more effective the budget balancing response can be. It is important to monitor upside growth as well. A surge in revenues is important to understand as well to determine if the trend is an aberration or something that is likely to sustain and require a mid-year adjustment.

3. Prioritized spending plans and established contingency plans for operating budgets

Contingency planning should be an ongoing exercise for governments. Budgets tend to inflate in good times: governments will expand services, fund generous employee pay packages, and accelerate financing for quality-of-life projects that would never be considered in a slow growth or declining economic environment. It is good public policy to have contingency plans and options to address budget imbalance when it occurs. This would include an analysis of the following:

- What part of the budget is discretionary;
- What spending areas can be legally or practically reduced;
- The time frame necessary to achieve reductions of various programs;
- Where revenue flexibility exists; and
- A course of action on the revenue side under various economic scenarios.

4. A formalized capital improvement plan in order to assess future infrastructure requirements

Highly rated credits will have a long-term capital improvement program that comprehensively assesses the infrastructure requirements of the government and a plan to fund these requirements over a five-year (or longer) time frame. Having a realistic plan that is comprehensively developed and updated annually is a requirement of all highly rated local governments. Developing these programs for state government is difficult because the scale of projects and the scope of responsibilities are so broad. Many have accomplished this task despite these obstacles, which is a positive credit factor. It is also important to incorporate the impact of capital projects on the operating budget for the short- and long-term. Governments have been moving into non-traditional projects, whether they are economic development (contributing infrastructure to a developer or industry) or quality of life (stadiums). These projects come with an upfront budget cost, but can have multiyear budget impacts. Projects can be sold as self-supporting, but may potentially be a drain on taxing resources.

5. Long-term planning for all liabilities of a government, including pension obligations, other post employment benefits and other contingent obligations would be optimal and allow for comprehensive assessment of future budgetary risks

This area of analysis should be comprehensive and include the "whole of government" approach. The nature of government services can create unexpected contingent obligations, or "off balance sheet" liabilities that could ultimately affect taxing resources. Unfunded pension liabilities have been disclosed in detail for years and this disclosure has enhanced the transparency of funding obligations in both the current year, and future years. Disclosure of this liability has also focused attention and planning on ways to improve funding levels. The new GASB Statement 45 requiring disclosure of liabilities associated with other post employment benefits (OPEB) will highlight some significant future liabilities for many governments. Given the rate of growth in health insurance costs and current demographic trends, greater transparency in this area will allow for advance development of funding and management solutions. Other areas of government operations and services have also resulted in budget pressure that may fall out of the traditional general fund focus. Hospital and nursing home operations, as well as various other enterprise operations have caused funding challenges at the local level, even when there is no clear legal responsibility for the government to provide funding. At the state level, local government fiscal difficulties can increase and become a funding challenge for the state.

6. A debt affordability model in place to evaluate future debt profile

Recently, state and local governments have developed debt affordability models. The impact of these models on a long-term credit rating will be dependent on how the model is established and used by the government, and the track record in adhering to the affordability parameters established in the model. There is no question that the process enhances the capital budgeting and related policy decisions regarding debt issuance and amortization.

7. A pay-as-you-go financing strategy as part of the operating and capital budget.

Pay-as-you-go financing can be a sound financing policy. Not only does it lower debt service costs, but also it provides operating budget flexibility when the economy or revenue growth slows. This is a more significant financing option when tax revenue growth in many areas can be considered extraordinary. A better match can be achieved between non-recurring revenues and non-recurring expenditures if this type of financing is used.

8. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget.

It is important that this plan is comprehensive. During a sustained economic recovery, program enhancements and tax reductions are natural. Pension funds that performed at record levels can provide incentive to expand or enhance benefits. As these program enhancements and tax reduction programs are incorporated on a long-term basis, it is important that management and elected officials understand the implications of any funding change. Elected officials will be ultimately responsible for the decisions necessary to restore out-year budget balance. Multiyear planning can be an important part of this process. The reality of government finance today is that even when there is legal authority to raise taxes, there may not be a practical ability to do so because it is politically unpopular. Standard & Poor's realizes that the out-years of a multiyear plan are subject to significant change. They provide a model to evaluate how various budget initiatives affect out-year revenues, spending and reserve levels. These plans will often have out-year gaps projected, which allows governments to work out, in advance, the optimal method of restoring fiscal balance.

9. Effective management and information systems

Investing in systems that improve the efficiency and effectiveness of a government unit and enhance overall service delivery is a positive financial management tool. Investment in financial management and information technology infrastructure has been significant during the past decade. To the extent that these changes improve financial reporting and monitoring capabilities, they enhance transparency and are viewed as a positive credit factor.

10. A well-defined and coordinated economic development strategy

Economic development programs have expanded rapidly over the last 20 years. The question for state and local governments now is not whether there should be a formal economic development program, but rather how significant a resource commitment should be dedicated to running these programs and offering incentives. These are clearly government policy decisions involving cost benefit analysis that are generally outside the credit rating process. However, if these economic development programs and strategies create employment, enhance diversification, and generate solid income growth, they could

have a positive effect on a government credit rating over the long-term. To the extent that there is a net revenue benefit to a government, it could also be a positive credit factor. Economic development strategies have increasingly become regional in nature and there has been a more coordinated approach between state and local governments.

STANDARD &POOR'S

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(Editor's note: The following replaces the criteria published in the 2005 Public Finance Criteria Book)

The rigor of a government's financial management practices is an important factor in Standard & Poor's Ratings Services analysis of that government's creditworthiness. Managerial decisions, policies, and practices apply directly to the government's financial position and operations, debt burden, and other key credit factors. A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is a primary determinant of near-term changes in credit quality. Standard & Poor's will now offer a more transparent assessment of a government's financial practices as an integral part of our general obligation and appropriation credit rating process.

Assessing Financial Practices

Major elements of governmental financial management include economic analysis, revenue forecasting, risk management, accounting practices, financial strategies, cash and liquidity administration, and debt management. All of these elements have an impact on a government's bottom line, and, as a result, on its credit quality. If a government is unable or unwilling to employ its authority in a timely manner to address events that impact its budget and financial condition, its credit rating can be adversely affected.

Many finance directors and other local government officials take pride in the managerial policies, practices, and structures they have established to ensure efficiency and quality of service, and to promote innovation and security. While credit ratings incorporate financial management as one of many factors, the impact of financial management on the rating may not be readily apparent because other factors may counterbalance, or even outweigh it. Examples of such factors include local economic conditions, debt levels, and statutory

limitations. By focusing special attention on the assessment of financial practices, Standard & Poor's will more fully recognize governments' efforts in this important area. In fact, the vast majority of downgrades in recent years can be attributed to financial practices, or lack thereof. (For further information on this trend, see the report, "GO Credit Ratings Are At A Crossroad As Downgrades Increase," RatingsDirect, June 12, 2006).

Analytical Framework

Standard & Poor's has established an analytical methodology that evaluates established and ongoing management practices and policies in the seven areas most likely to affect credit quality. These areas are:

- Revenue and expenditure assumptions
- Budget amendments and updates
- Long term financial planning
- Long term capital planning
- Investment management policies
- Debt management policies
- Reserve and liquidity policies

The evaluation of each area focuses on best practices and policies that are credit-important in most governments rather than policies that address issues that are fairly unusual or unique to the government. The nature of the policies and practices considered are those that governments may use in some manner regardless of the size or type of government. Issuers that rank well in the evaluation should be those whose policies help reduce the likelihood of credit deterioration, or enable them to benefit more from changing conditions, whether they are economic, budgetary, statutory, or personnel related.

Users of the FMA, however, should also realize its limitations. By focusing on a government's policies and practices, the FMA is not an evaluation of the competency or aptitude of individual finance professionals; nor is it an evaluation of a finance department's ability to handle unique challenges. Moreover, the nature of the entity's governing body, the effectiveness of its governance practices, and issues of public policy pursued by the government are beyond the scope of this analysis.

Although Standard & Poor's considers in its analysis any material information that provides relevant context or influences financial management, it is important to note that this assessment of financial practices is based primarily on the existence and implementation of management practices, and not necessarily the results achieved by such practices. Results—both positive and negative—are assumed to manifest themselves in other visible ways. The purpose of the focus on policies and practices is to evaluate the potential for credit quality to move away from those currently indicated by results.

The following tables detail each of the seven financial practice areas examined by Standard & Poor's.

Table 1

Revenue And Expenditure Assumptions

Are the organization's financial assumptions and projections realistic and well grounded from both long-term and recent trend perspectives?

Strong	Formal historic trend analysis is performed and updated annually for both revenue and spending; regular effort is made to determine whether revenues or expenditures will deviate from their long-term trends over the next couple of years; evidence of independent revenue forecasting exists(when possible).
Standard	Optimistic assumptions exist that, while supportable, add risk; assumptions are based on recent performance, but little evidence of questioning or validating assumptions exists.
Vulnerable	Assumptions neglect likely shortfalls, expenditure pressures or other pending issues; assumptions exist which enjoy no prudent validation.

Table 2

Budget Amendments And Updates

Are there procedures for reviewing and amending the budget based on updated information and actual performance to ensure fiscal targets are met?

Strong	At least quarterly budget surveillance is maintained to identify problem areas and enable timely budget adjustments; management exhibits ability and willingness to address necessary intrA-year revenue and expenditure changes to meet fiscal targets.
Standard	Semiannual budget reviews exist; management identifies variances between budget and actual performance.
Vulnerable	No formal process exists for regular review and timely updating of budget during the year.

Table 3

Long-Term Financial Planning

Does management have a long-term financial plan that allows them to identify future revenues and expenditures as well as address upcoming issues that might affect these?

Strong	A multi-year financial plan exists where future issues are identified and possible solutions are identified, if not implemented; revenue and expenditure decisions are made primarily from a long-term perspective. Structural balance is a clear goal.
Standard	Multi-year projections are done informally; multi-year projections are done, but without discussion of pending issues, so that issues are not addressed; some one-shot actions exist, but the long-term consequences of these actions are acknowledged and communicated.
Vulnerable	No long-term financial planning exists; operational planning is done on a year-to-year (or budget-to-budget) basis; one-shot budget fixes are used with little attention to long-term consequences.

Table 4

Long-Term Capital Planning

Has the organization created a long-term capital improvement program?

Strong	A five-year rolling CIP with funding identified for all years exists and is linked to the operating budget and long-term revenue and financing strategies.
Standard	A five-year CIP is done, but is generally limited to projects to be funded from the current budget plus a four-year wish list; some funding for out-year projects is identified, but not all.
Vulnerable	No five-year CIP exists; capital planning is done as needs arise.

Table 5

Investment Management Policies

Has the organization established policies pertaining to investments, such as the selection of financial institutions for services and transactions; risk assessment; investment objectives; investment maturities and volatility; portfolio diversification; safekeeping and custody; and investment performance reporting, benchmarking, and disclosure?

Strong	Investment policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning.
Standard	Informal or non-published policies exist; policies are widely communicated and followed.
Vulnerable	Absence of informal or non-published policies

Table 6

Debt Management Policies

Has the organization established policies pertaining to the issuance of debt, such as projects that may or may not be funded with debt (including economic development projects); maturity and debt service structure; use of security and pledges, credit enhancement, and derivatives; and debt refunding guidelines?

Strong	Debt policies exist and are well defined; strong reporting and monitoring mechanisms exist and are functioning. If swaps are allowed, a formal swap management plan that follows S&P's guidelines (see the DDP) has been adopted.
Standard	Basic policies exist; policies are widely communicated and followed. If swaps are allowed there is a swap management plan in place, but it does not follow S&P's guidelines.
Vulnerable	Absence of basic policies or clear evidence that basic policies are followed. Swaps are allowed but there is no swap management plan in place, and/or there is no local (non-FA) knowledge about the swap.

Table 7

Reserve And Liquidity Policies

Has the organization established a formalized operating reserve policy, which takes into account the government's cash flow/operating requirements and the historic volatility of revenues and expenditures through economic cycles?

Strong	A formal operating reserve policy is well defined. Reserve levels are clearly linked to the government's cash flow needs and the historic volatility of revenues and expenditures throughout economic cycles. Management has historically adhered to it.
Standard	A less defined policy exists, which has no actual basis but has been historically adhered to it.
Vulnerable	Absence of basic policies or, if they exist, are not followed.

Assessment Methodology

Standard & Poor's evaluates and assigns each of the seven areas a qualitative ranking, based on the above framework. In determining the overall assessment, the revenue and expenditure assumptions, budget amendments and updates are given a relatively higher importance; long-term financial planning and liquidity policies are given an average importance; and capital planning, debt policies, and investment policies receive relatively less weight. The difference in degrees of importance is limited, however, so that each factor's contribution to the assessment is meaningful.

Overall assessments are communicated using the following terminology: The term "good", in addition to the terms "strong", "standard", and "vulnerable", is used to further differentiate governments with a mix of strong and standard practices.

"Strong"

A Financial Management Assessment of 'strong' indicates that practices are strong, well embedded, and likely sustainable. The government maintains most best practices deemed critical to supporting credit quality and these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will be continued into the future and transcend changes in the operating environment or personnel.

"Good"

A Financial Management Assessment of 'good' indicates that practices are deemed currently good, but not comprehensive. The government maintains many best practices deemed as critical to supporting credit quality, particularly within the finance department. These practices, however, may not be institutionalized or formalized in policy, may lack detail or long-term elements, or may have little recognition by decision makers outside of the finance department.

"Standard"

A Financial Management Assessment of 'standard' indicates that the finance department maintains adequate policies in most, but not all key areas. These policies often lack formal detail and institutionalization, and may not include best practices.

"Vulnerable"

A Financial Management Assessment of 'vulnerable' indicates that the government lacks policies in many of the areas deemed most critical to supporting credit quality. The 'vulnerable' designation suggests a high degree of uncertainty regarding a government's ability to effectively adapt to changing conditions that could threaten its long-term financial position.

Analytical Process And Supporting Documentation

To perform its analysis of local government financial practices, Standard & Poor's will rely on documentation provided by the government and discussions with the organization's management. Relevant documents include, but are not limited to, audited financial statements and accompanying notes, budget documents, financial plans, management policy statements, procedure manuals, and periodic reports. Discussions provide an important opportunity for management to elaborate on the factors listed above, as well as answer specific questions, so as to enable Standard & Poor's analysts to assess the factors as thoroughly as possible.

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The Six Critical Components of Strong Municipal Management:

Managerial Methods to Promote Credit Enhancement

Summary

Municipal credit ratings do not generally peak in boom times and fall in recessions. One of the main factors behind this stability is the proven ability of governmental managers to implement strategies that maintain credit strength over the long-term. A strong governmental management team prepares well for economic downturns, maintains strong controls during boom times, and manages well during all economic cycles. To this point, strong management is a reason behind the fact that, even in the economic difficulties of calendar year 2003, the rate of upgrades exceeded downgrades by a factor of 270 to 144.

The five key factors Moody's assesses in determining a credit rating are: debt, finances, the debt's legal security, economy/demographics, and management strategies. Assessing managerial strength is the most subjective of our five rating factors, yet it is also essential. This special comment will address the most critical components that public managers can utilize to position their governments better for the short- and long-term, for maximum credit stability or improvement.

The six critical components of strong management are:

1. **Conservative budgeting techniques**
   A careful, organizational approach to budgeting that ideally involves conservative fiscal policies and multi-year modeling.
2. **Fund balance policies**
   Adoption of a clearly delineated fiscal plan which includes a fund balance target level and the instances in which reserves may be used.
3. **Debt planning**
   A formalized debt plan that includes target and maximum debt levels, targets for pay-as-you-go funding of capital work, and incorporation of these debt policies into a multi-year capital plan.
4. **Succession and contingency planning**
   A formalized succession/contingency plan which typically includes written documentation of organizational structures, succession plans should key personnel change, and specific scenarios to respond to likely changes that might affect credit.
5. **Strategic planning for economic development**
   Feasible economic development plans that suit the particular strengths and needs of the community, with clear guidelines that detail allowable incentives.
6. **Timely disclosure**
   Timely audited financial documents that are attested to by an outside firm, and the direct disclosure of any material events as soon as possible.

1. GOOD BUDGETING

Moody's recommended approach incorporates conservative budgeting and allows for contingency planning and mid-year flexibility. Specifically, we recommend: conservative revenue forecasting, tight expenditure controls and multi-year budget planning.

Conservative Revenue Forecasting

Moody's seeks to understand the many variables used to create robust budgeted revenue projections. We also prefer to see governments that work with information that is updated on a regular basis. For instance, Moody's analysts anticipate that feasible property tax revenue projections will be based on historic trends and include reasonable assumptions about the future of the local real estate market, the direction of national interest rates, and the local government's likely tax collection rate. Similarly, sales tax revenue projections might incorporate recent actual trends and indicators of likely future purchasing demand – such as population trend numbers, expected unemployment rates and the impact of current and expected nearby retail competition.

In our analysis, Moody's associates will assess a government's local revenue forecasting by looking at historic trends and budgetary assumptions, including comparisons of budget-to-actual results on a line item basis for the major revenues and expenditures, usually over several years. The strongest management teams have a solid track record of meeting projections in most line items over several years. We also analyze the assumptions behind the current and upcoming years' budgets, to see if we believe the government is likely to reach its targets in the future.

Overall, our reason for focusing on this analytical area is that rosy revenue budgeting can lead to shortfalls within a fiscal year. These shortfalls must then be filled, either by last-minute revenue enhancements, expenditure cuts, one-shots or draws into reserves. All of these measures undermine future financial flexibility, which can create fiscal problems in subsequent years and pose a significant challenge to credit strength.

Tight Expenditure Controls

Similarly to our analysis of revenue growth, Moody's analysts will also look for strong management by assessing the government's track record of expenditure controls and conservative but reasonable expenditure projections. In Moody's view, the strongest management teams are able to discuss the levels of flexibility within each expenditure line item as well as discuss the details about the assumptions behind their budgeting. We bring to these expectations a sensitivity to political realities and to the extremely difficult balancing act that government officials must perform between providing services and controlling costs. As with the revenue side, we consider tight expenditure controls part of strong management because such controls lessen the likelihood of fiscal distress, within a fiscal year and beyond.

Further, in times of economic weakening, revenues such as sales tax and income tax are likely to stagnate or even decline, and property tax collection rates may fall. Therefore, expenditure controls are key to keeping a budget balanced. Otherwise, over-budget expenditures are usually paid through draws from reserves, cash borrowing or one-shot revenues like asset sales. Using any of these approaches weakens the government's options the following fiscal year, when the continued expenditure growth could cause further fiscal distress.

Multi-Year Budget Planning

Because the results of one fiscal year of course impact the next fiscal year, Moody's recommends that governments implement multi-year fiscal planning. Generally done over three- to five-year timeframes – although sometimes up to 10 years – these long-term plans show the level of revenue growth necessary to reach particular spending levels and, alternatively, the impact that slowed revenues would have on spending. By plugging in various economic assumptions, government officials can use these plans to envision their budgetary needs over the near- to medium-term. Officials can "stress test" certain revenue streams – for instance, possibly learning that level state aid funding could be offset by the expected property tax revenue growth, allowing for normal expenditure growth even during a state's fiscal crisis.

Moody's has found that these documents serve as helpful planning tools, allowing officials to communicate "from the same page." Fiscal plans are also helpful to our analysis, since they can lay out in black and white the arguments for how a government, in times of economic constriction or other challenges, plans to maintain financial stability. They can put numbers behind an argument that a worse-case scenario is still not a scenario of lowered credit strength.

The best fiscal plans are incorporated with long-term capital planning, identifying future debt service costs and additional operational costs that will result from new capital construction. These types of integrated plans demonstrate how the government will pay for increased services and inflationary budget growth. They identify areas of potential financial flexibility – for example, capital spending that could be reduced or fees that could be increased. In short, multi-year fiscal plans perform two important functions: one, they walk the reader through the "what if" questions with quantified, hard answers; and, two, they provide a road map that shows where the government's management team intends to go over the next several years.

2. FUND BALANCE POLICIES

Moody's analysts realize that many municipalities have experienced sustained expenditure pressure primarily driven by incremental salary costs, health insurance premiums and pension payments. As a result, in the last few years many municipalities have appropriated some of their reserves for operations. While Moody's understands these pressures, we also want to see adequate levels of generally available, highly liquid fund balances maintained, even in an environment of fiscal strain. Fund balance policies provide one of the best guarantees to bondholders that sufficient levels of fund balance will be maintained, regardless of economic cycles, cash crunches or administrative turn-over.

Maintaining adequate reserves has several internal and external benefits. Internally, reserves can provide for cash flow needs until major revenues are received, reducing or eliminating the need for cash flow borrowing; provide funds to leverage state or federal grants; and provide for the unexpected. Externally, reserves tend to be viewed favorably by investors, rating agencies and local banks with which a municipality does business, thus benefiting ratings and decreasing the potential need for external liquidity sources.

A municipality's fiscal policies should incorporate a plan related to reserves, specifically when they can be used, what the fund balance target level is and to what minimum level they will not drop below. We also prefer fiscal policies that define a target for cash as well as fund balances, as cash is a leading indicator of financial health. Moody's does not require specific fund balance levels, but one guideline is undesignated reserves that equal one to two months of operating expenses or between 5% to 10% of annual revenues. The specific targeted level should be predicated on the level of fiscal vulnerability faced by the particular government, including the cyclical vulnerability of the revenue stream, volatility of expenditure items and likelihood of natural disasters. A town located in a flood zone with a high reliance on sales taxes, for example, should have relatively high fund balances to hedge against the relative risk in its operations. Also, a county that is reliant on economically sensitive revenue streams such as sales or income taxes and is experiencing growing social service costs should also have higher reserves. The bottom line is that General Fund balances should be sufficient to address normal contingencies and maintain stability in reserves over time. This is always the case, and it is certainly important in smoothing the transition phase from a robust to weaker economy.

Moody's also prefers to see written investment and fund balance policies, and ideally those that have been adopted by the government in some formalized manner, such as a resolution. A written policy, while not necessarily legally binding, indicates to Moody's that the government officials have discussed the policy in full and arrived at a consensus behind it. In short, we believe written policies carry much more weight than verbal agreements do. For more information on Moody's view of fund balances, please refer to our special comment "Your General Fund Balance – One Size Does Not Fit All!"

3. DEBT PLANNING

As with fund balance policies, formalized debt planning and debt policies provide bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels and that, simultaneously, capital needs will be met on an ongoing basis.

The debt burden measures how leveraged a community is by calculating the amount of debt outstanding as compared to the entity's full valuation. Ultimately, the more leveraged a tax base is, the more difficult it is to afford additional debt. Moody's views debt burdens that range from 3 to 4% as average, although this range varies somewhat by state. Therefore, in debt policies, Moody's prefers to see maximum debt burdens above which the community will not bond, identified as a percentage of the community's full valuation and also, possibly, as a per capita percentage. The best debt policies include both a target debt level, say, 2.5%, and a maximum debt level, for example, 4%, and then project the community's next five year's of capital borrowing against those levels. Also, if an entity plans to enter into an interest rate swap, Moody's believes that it is important to incorporate swap objectives into the debt policy. In our analysis of swap deals and their potential impact on credit quality, one of Moody's analysts' main concerns is the exposure of that issuer to the effects of interest rate volatility of variable rate interest. Therefore, we regard strong management teams as those that understand the purpose of the swap transaction and the risks inherent in the transaction. For more information on swaps, please refer to Moody's special report entitled "Swaps and the Municipal Market: The Impact of Swaps and FASB 133 on Municipal Credit Quality."

Existence of a regularly updated, multi-year capital improvement plan is critical to good management, as such plans itemize the future capital needs of the government and identify financing sources for each of the upcoming capital projects. The strongest governmental management teams then incorporate their capital improvement plans into their debt projections and multi-year fiscal projections – identifying how both their debt and operating capital expenditures will impact their balance sheets and financial operations.

On the operating side, Moody's recommends that – in addition to debt policies – management teams adopt policies for their pay-as-you-go financing of capital work and the percentage they believe debt service should represent of their overall expenditures. For instance, some governments have policies that ensure that 5% of building permit fees, impact fees or other earmarked revenues are diverted annually into pay-go capital spending. Others have policies that state that half of any annual operating surplus will be used for pay-go capital spending. The particular policy adopted should be determined by the needs of that individual government and can be honed by looking at peer group norms. Similarly, Moody's prefers to see policies that identify a maximum that debt service should comprise of total operating expenditures. Debt service payments represent a fixed expense and as such, they offer limited line-item flexibility should financial operations become stressed. The typical range for debt service as a percent of expenditures is 5 to 15%. Moody's recommends debt service policies that incorporate the near-term and long-term capital needs of the community and result in feasible, financially responsible goals for that community. For more information on Moody's analysis of debt, please refer to our special comment "Moody's Approach to Analyzing Municipal Long-Term Debt."

4. CONTINGENCY AND SUCCESSION PLANNING

Contingency planning is critical to good governmental management, and should be part of the management strategies we discuss throughout this report. Long-term budgeting, for instance, involves contingency planning because it depends on managers being able to quickly identify unexpected mid-year changes in their revenues or expenses and respond immediately, usually according to previously outlined plans. Fund balance policies, as discussed above, also serve as contingency plans, as they work best when they are adopted documents that continue to influence financial decisions even when the appointed and elected officials behind the policy change.

Similarly, changes in a government's management team should not jeopardize that government's credit strength. Moody's analysts should be given an outline of a government's organizational structure, including which department heads answer to whom, and whether certain department heads who are key to credit stability – namely, treasurer, finance director, business administrator and/or comptroller – have deputies with significant responsibilities. These questions help our analysts assess whether the government would continue to function smoothly if an individual member of the management team were to leave. Any further documentation on likely staff movement, such as a written succession plan, is also helpful. This issue is of particular importance if the government has appropriation, swap and/or variable rate debt outstanding, because in those cases the manager's ability and authority to act quickly on debt service budgeting requirements, payment due dates and puts is essential.

Other credit-risk scenarios that highlight the importance of contingency planning are: annexation proposals, voter referenda that could impact financial operations, and major tax appeals. In these three examples, the change is rarely a surprise; discussion of the burgeoning problem almost always takes place first. With any government that is facing one of these issues, Moody's analysts would want to be informed of the possibility beforehand and discuss in detail the government's plans for all possible outcomes. These discussions can be kept confidential and do not have to occur in conjunction with a bond sale. Moody's analysts are less concerned with what the particular challenge is and more concerned with seeing foresight and proactive planning by the government officials in response to it.

5. STRATEGIC PLANNING FOR ECONOMIC DEVELOPMENT

The economic viability of a locality drives its ability to generate adequate financial resources to meet operating and debt service needs. Because of this, Moody's believes that the strongest management teams are involved in targeted economic development initiatives that can influence the future vitality of their particular entity, mainly over the long-term.

In our analysis, Moody's considers the local government's economic size, its growth and redevelopment potential, government management of economic development, the size of the tax base, tax base diversity and concentration, whether there are unmet workforce issues, demographic measures, and likely growth trends. We want to see economic development strategies that suit that government's particular strengths and weaknesses and economic development staff members that have an accurate sense of the community, its needs and how they will achieve their office's economic goals. These goals should be consistent with the size and complexity of the particular tax base. For example, a small community with stable employers may warrant a small economic development staff, while a large city with, for example, a dependence on one industrial sector, may need a larger, more experienced staff able to deal with the challenges it could face.

In the case of economic development incentives, Moody's believes that strong managers use well-considered guidelines for the expected return on investment. Many well-run communities have economic incentive policies that state that a proposed development project may only be considered for an incentive if it is projected to return 100% of the investment or guarantee a certain number of jobs within a set timeframe, for instance, three years. The methodology used to project this return is also outlined in these policies. Moody's further recommends that management teams consider how the use of financial incentives, tax abatements or other economic development mechanisms impact

financial flexibility and whether there is the potential for long-term benefit, either through the creation of new jobs of generation of new revenue. For more information on how economic development plans factor into ratings, please refer to Moody's special comment "How Moody's Examines Economic Conditions As a Factor In Local Government Credit Analysis."

6. TIMELY DISCLOSURE

As Moody's analysts depend entirely on the documents and information provided to us by government issuers and their representatives, full and timely disclosure of financial matters is of essential importance to us and is a basic tenet of a well-functioning capital market system. Our analysts are not accountants who prepare the numbers or auditors who opine on the compliance of the reports. Instead, we rely on the information given to us to be accurate and complete. Therefore, in our view, the strongest management teams have audited or reviewed financial reports prepared annually, generally within six to nine months of the close of the fiscal year. The financial statements that are attested to by an outside firm – as opposed to preliminary documents prepared by members of the government's finance department – will be viewed as significantly enhanced. Moody's does not require or even expect all governments to employ national accounting firms, but we do recommend that even small governments employ a respected, established local, regional or national firm. To note, Moody's does rate the debt of issuers that do not publish annual audits (usually, small communities). However, we generally consider those issuers to have weaker financial reporting practices and therefore weaker management as related to disclosure.

The Governmental Accounting Standards Bureau (GASB) creates the accounting principles by which governmental accountants prepare their audited financial statements. Moody's is not the regulatory body behind GASB and, as such, we do not demand compliance with GASB standards. At the same time, we do believe that the strongest governmental management teams comply with GASB (assuming that is the norm in their state, with New Jersey's statutory accounting standard as one of several notable exceptions). This belief is based on our knowledge that GASB has become the industry standard. Additionally, GASB's commitment to being responsive to the needs of the entire affected community and adherence to a due process that gives interested parties ample opportunity to make their views known has resulted in the creation of a time-tested method for establishing accounting standards. Moody's recognizes that this process can become politically and emotionally charged; however, our overall interest in audited documents is in comparability of information and an accurate representation of the issuer's financial picture.

The other sign of strong management is timely disclosure of events that may have a material impact on credit quality. Moody's analysts are frequently contacted by government representatives – outside of any bond sale calendar – who want to inform our analysts of events taking place in their communities. Moody's encourages such communication. These types of informal notifications most frequently involve possible upcoming lawsuits, company closings or bankruptcies, referendum votes, and the like, but they can also serve as a way to keep us abreast of less dramatic events such as the unfolding of ongoing budget matters. Moody's analysts strongly prefer not to be surprised by events that might impact credit quality, and informal communication from the appropriate government official is a recommended way to avoid such surprises.

Conclusion: Why Strong Management Matters

Strong management refers to Moody's preference in seeing administrative strategies that improve credit strength in good times and provide strong assurances of maintaining credit strength in weaker times. Indications of credit strength include strategies to ensure that financial practices, debt management, contingency planning and economic development will serve the community well for the both short- and long-term. Strong management also means establishing reserve policy goals and financial and debt benchmarks. These policies additionally guarantee against the concern that a possible change in the government's politics or members will impact its financial operations. They create a baseline for future management teams and, if formally adopted, demonstrate "buy-in" by all affected parties.

Moody's prefers to see that management strategies will help ensure that financial practices are appropriate and responsive to the municipality's needs. We look for debt practices that are thoughtfully structured and in line with statutory and voter prescribed debt limits. We believe that the best managers are responsive to the demands for services relative to the needs of business and residential taxpayers, and have well thought-out contingency plans in place.

Many of the red flags of declining credit strength stem directly from weak budgeting. They include: revenue shortfalls, unanticipated expenditure growth, draws from reserves for operations, and short-term borrowing for operations. For these reasons, we believe overly optimistic budgets pose a greater risk to municipal credit worth than does a slowdown in economic activity. As Wade S. Smith wrote in his book *The Appraisal of Municipal Credit Risk*, "Economic recessions are in a sense disasters, but neither their arrival nor their impact on state revenues come unexpectedly." By implementing the steps recommended in this report – good budgeting, adoption of fund balance policies, debt planning, succession and contingency planning, strategic planning for economic development, and timely disclosure – local governments can create a bridge that carries them through near-term challenges without compromising short-term or long-term credit strength.

Related Research

Special Comments:

Your General Fund Balance - One Size Does Not Fit All!, March 2002 (74269)

Moody's Approach To Local Government Financial Analysis , January 2002 (73689)

Municipal Credit Quality Deteriorates Sharply in 2003, Led By State Downgrades, January 2004 (80905)

Swaps And The Municipal Market: The Impace Of Swaps And Fasb 133 on Municipal Credit Quality, October 2002 (76388)

Rating Methodologies:

The Determinants of Credit Quality, May 2002 (75047)

How Moody's Examines Local Government Economic Conditions As A Factor In Its Municipal Credit Analysis, July 2003 (78882)

Moody's Approach To Analyzing Municipal Long-Term Debt, February 2004 (81248)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Tax Supported
Special Report

To Bond or Not To Bond

Debt Affordability Guidelines and Their Impact on Credit

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Related Research

- "Local Government General Obligation Rating Guidelines," June 10, 2004
- "The 12 Habits of Highly Successful Finance Officers," Nov. 21, 2002
- "The Bottom Line: Local General Government Reserves and the Policies that Shape Them," Jan. 26, 2005
- "Guidelines for Interest Rate Swaps and Variable-Rate Debt," May 10, 2005

This is the second in a series of follow-up discussions to Fitch Ratings' Nov. 21, 2002 report "The 12 Habits of Highly Successful Finance Officers," which outlined the importance of management practices to credit ratings. The first, "The Bottom Line: Local General Government Reserves and the Policies that Shape Them," published on Jan. 26, 2005, addressed the establishment and maintenance of fund balance policies.

Summary

This report expands on Fitch Ratings' view of debt affordability policies and elaborates on the types of policies that support strong credit quality. Sound debt affordability policies offer benefits such as a framework for allocating resources, increased financial flexibility through limiting and adding predictability to the fixed cost burden, and greater tax rate stability. Keeping debt-related costs within a tolerable range for taxpayers may also reduce the likelihood of vocal public opposition to needed capital projects.

Fitch believes that debt affordability is best viewed in the context of a comprehensive assessment of capital needs. Although a government may not have the financial or operational means to fund all desired projects, identifying those projects creates a basis for prioritizing and seeking possible funding sources for them. Quantifying the amount of debt the tax base can support enables an entity to determine the scope and limits of immediate, medium-term, and long-term capital plans.

Restrictive debt policies that do not allow for the funding of essential capital projects carry risks that Fitch sees in some cases as greater than those of a high debt load. Some possible ramifications of failure to fund needs are increased operating and maintenance costs for antiquated facilities and infrastructure, growing costs of remediating long-neglected facilities, inability to provide adequate vital services to taxpayers (which could in turn reduce the community's desirability and economic competitiveness), and the potential for objections or even legal action by citizens, taxpayers, environmental groups, or regulatory agencies.

Fitch incorporates all long-term obligations, including certificates of participation and other appropriation-backed obligations, in its calculation of debt ratios and views more favorably policies that recognize and treat such instruments as debt. In many states, general obligation (GO) debt is less common than appropriation-backed debt or bonds secured by a specific pledged revenue source, and excluding such debt would not reflect the government's true long-term fixed cost obligations or their burden on residents and taxpayers. Fitch does not include unfunded pension liabilities or other long-term liabilities in its ratios unless they are owed to a third party over a predetermined schedule. However, Fitch does factor these liabilities into the rating and views favorably written policies and plans to address them.

Components of Strong Debt Affordability Policies

Reasonable, Attainable Debt Parameters

The core of most debt affordability policies is a set of targets or ranges that measure debt levels against economic and financial indicators. The most common limitations set by governments are on debt as a percentage of the market value of taxable property, debt per capita, debt service as a percentage of spending or revenues, and principal amortization rates. Also, states that receive a significant share of general revenue through an income tax look at debt as a percentage of personal income. Typical policies limit direct debt to 2%–5% of full market value and/or $2,000–$3,000 per capita, debt service to 8%–12% of budgeted expenditures, and amortization to 50% or more within 10 years. Fitch views the appropriateness of such limits in the context of the issuer's overall risk profile, focusing particularly on area wealth as evidenced by the property tax base and income levels.

Fitch gives credit to policies that go beyond mirroring state-imposed limits and are tailored to the issuer's own circumstances. In some cases, growing debt needs or restrictive policies lead issuers to violate their own guidelines. Fitch views more positively a less conservative policy that can realistically be adhered to than a more stringent one that is likely to be overridden or violated. A common concern among issuers is limits stated on a debt per capita basis, as that particular ratio is usually not adjusted for inflation, and population is not always a good measure of activity and, hence, infrastructure needs. Fitch will not penalize an issuer for exceeding such a policy, but views more favorably policies that are sustainable.

Issuers' policies almost always address only direct debt levels — the impact of debt issued by the entity being rated. While important, these policies give an incomplete picture of the total debt burden on the community's residents and taxpayers. The strongest policies include debt levels of underlying and overlapping entities, such as cities, counties, school districts, and special districts, as well as redevelopment agencies issuing tax increment revenue bonds. While Fitch understands that the issuer does not control debt issuance by other entities, the recognition that taxpayers share the overall debt burden is a positive.

A comprehensive policy will include all types of tax-supported debt, including leases and other appropriation-backed obligations in which the entity is the ultimate obligor, as well as debt issuances to which the government has committed a contingent or moral obligation. Examples of these are non-self-supporting utilities, sports and entertainment facilities with a backup pledge or agreements to consider use of governmental revenues for debt service, and economic development projects to which the government may have to provide funds for debt payments if the pledged revenue falls short of debt service.

When possible, Fitch reviews compliance with policies prospectively. If an issuer has sizable debt plans, Fitch looks for an analysis of compliance with debt affordability targets that fully incorporates future needed borrowing. Fitch will do its own when such analysis is not forthcoming, but considers the issuer's lack of such analysis to be a credit weakness.

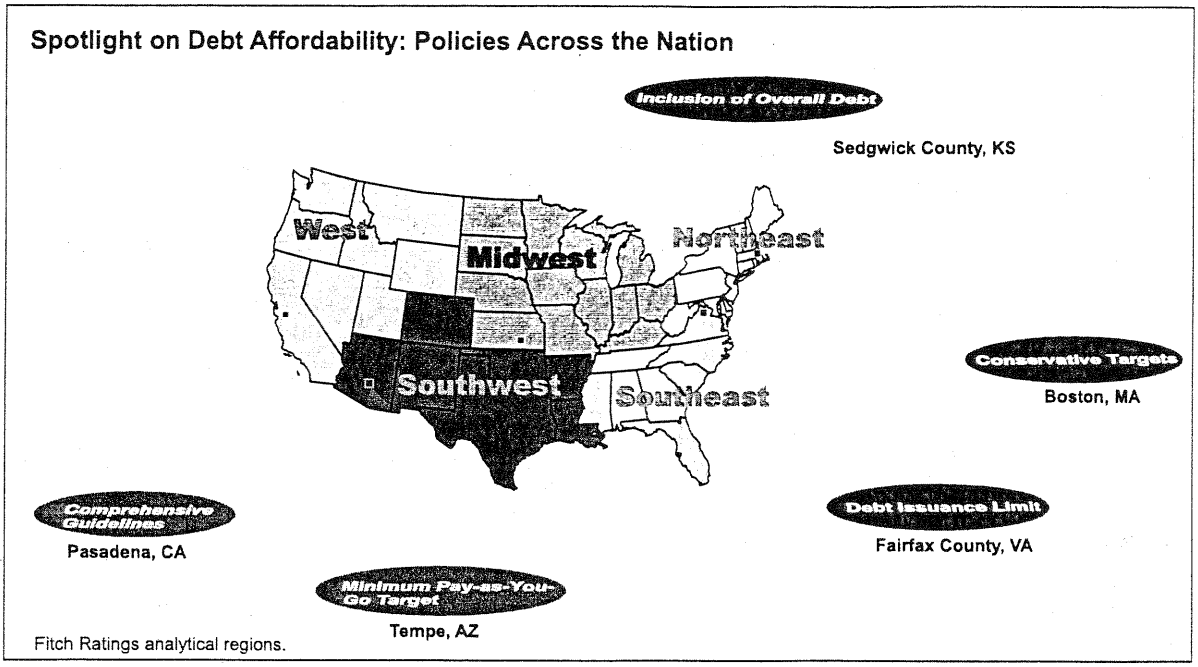
Pay-as-You-Go Funding Guidelines

Setting forth a dollar amount to be dedicated to capital funding on a pay-as-you-go basis may be impractical, but Fitch views favorably governmental entities that allocate a percentage of the annual budget for capital needs or have a methodology to channel surpluses to this purpose. The presence of a pay-as-you-go program not only reduces the amount of debt needed but provides budgetary flexibility in years when expenditure cuts are necessary. Institutionalizing this practice as a formal policy or goal is even stronger evidence of sound debt management.

Use and Management of Derivative Products and Variable-Rate Debt

Particularly in the past few years, when interest earnings have been low, many governments have expanded their analysis of the appropriate level and types of debt and have developed asset/liability management policies. Fitch believes these more comprehensive and thorough policies can be a credit strength, assuming that permissible risks, such as limits on the use of variable-rate debt, are reasonable and appropriate to the entity's credit profile.

A recently published report discusses Fitch's evaluation of the credit impact of use of derivative products and variable-rate debt *(see Fitch Research on "Guidelines for Interest Rate Swaps and Variable-Rate Debt," dated May 10, 2005, available on Fitch's web site at www.fitchratings.com)*. The growing prevalence of these products has led many governments to set up frameworks for making decisions about the appropriate use of these products.



Comprehensive debt affordability policies identify the benefits expected from entering into derivatives and include strategies for mitigating the risks. Examples of criteria to mitigate derivatives risks include establishing minimum ratings for counterparties, identifying funding sources for potential swap termination payments, and budgeting conservative interest rate assumptions.

Policies in Action

In the following, Fitch highlights sound debt affordability policies from an issuer in each of Fitch's five analytical regions and spotlights a component of each policy that makes it particularly strong. Most highlighted policies have been in place for a decade or more, indicating they are well institutionalized, although specific aspects may change over time as circumstances require. All of the policies specify that debt should be used only to finance long-lived projects, with the project's useful life being equal to or greater than the term of the debt.

Fairfax County, VA

Fitch GO Rating: 'AAA', Stable Rating Outlook

Spotlight: Annual debt issuance limit

Summary: In its "Ten Principles of Sound Financial Management," established in 1975 and most recently updated in 2002, Fairfax County identifies guidelines of keeping debt service below 10% of general fund disbursements and debt at less than 3% of market value. GO-supported debt is limited to $225 million annually or $1 billion over five years. The county's annual budget includes a five-year trend showing compliance with the 10% and 3% limits, including the prior three audited fiscal years, the current fiscal year, and the budgeted fiscal year. The county's debt burden calculations take into account appropriation-backed debt, special revenue bonds, and literary loans granted by the Commonwealth of Virginia, as well as GO bonds. Although the policy does not set a level of pay-as-you-go funding, it states the importance of balancing long-term financing with use of current resources for capital projects.

Contact: Leonard P. Wales, Debt Manager (len.wales@fairfaxcounty.gov)

Policy Web Link: www.co.fairfax.va.us/gov/omb/pdf/overview/LT_FP&T.pdf

Pasadena, CA

Fitch GO Rating: 'AA+', Stable Rating Outlook

Spotlight: Comprehensive policy incorporating capital planning and derivatives, as well as topics more commonly found in such policies

Summary: Pasadena has published a handbook with detailed discussions of each of the 13 components of its debt management policy. Key elements include co-ordination with the capital planning process, discussion of affordability targets, review of debt

limitations imposed by both the city and the state, descriptions of different types of debt, and appropriate debt structuring. A separate appendix outlines the city's derivatives policy. Specific affordability targets are not included; rather, the policy refers to "generally accepted measures of affordability." Similarly, the derivatives policy does not prescribe specific targets to mitigate risk factors, but requires consideration of a wide variety of risks prior to entering into a swap, in addition to including specific guidance for structuring swap agreements.

Contact: Jay M. Goldstone, Director of Finance (jgoldstone@ci.pasadena.ca.us)

Policy Web Link: www.ci.pasadena.ca.us/finance/City%20of%20Pasadena%20Debt%20Management%20Policy%20Handbook.pdf

Boston, MA

Fitch GO Rating: 'AA', Stable Rating Outlook

Spotlight: Conservative debt management targets and analysis of projected compliance

Summary: Boston's debt management policies are included in its five-year capital planning document. Targets include limiting net direct debt to 3% of assessed value, repaying at least 40% of debt within five years and 70% within 10 years, limiting gross debt service to 7% of general fund expenditures, and limiting variable-rate debt to 20% of total outstanding debt. While the first target is fairly common, the other three are all more stringent than Fitch typically sees. The capital plan includes projections of compliance with each target, incorporating debt to be issued through the planning period.

Contact: Lisa C. Signori, Chief Financial Officer (cfo@ci.boston.ma.us)

Policy Web Link: www.cityofboston.gov/budget/pdfs/08_capital_planning.pdf

Tempe, AZ

Fitch GO Rating: 'AAA', Stable Rating Outlook

Spotlight: A dedicated minimum level of pay-as-you-go financing, as well as specific affordability goals that include all tax-supported debt

Summary: Tempe's debt management plan has been in place since 1989. The plan specifies goals for debt per capita (currently $700–$800), debt to full cash property value (1.1%–1.25%), and debt service as a percentage of governmental revenues (10%–15%). The debt policy calls for minimum funding on a pay-as-you-go basis of 5% of the capital improvement plan (CIP), as well as an internal debt service reserve of 5% of total outstanding tax-supported debt. The policy also requires that bonds supported by excise taxes maintain coverage by pledged revenues of at least three times debt service and that improvement district bonds will not exceed 5% of the city's secondary assessed valuation.

Contact: Jerry L. Hart, CPA, Financial Services Manager (jerry_hart@tempe.gov)

Policy Web Link: www.tempe.gov/budget/cfp/cpf.pdf

Sedgwick County, KS

Fitch GO Rating: 'AAA', Stable Rating Outlook

Spotlight: Inclusion of all direct, overlapping, and underlying debt in ratio calculations

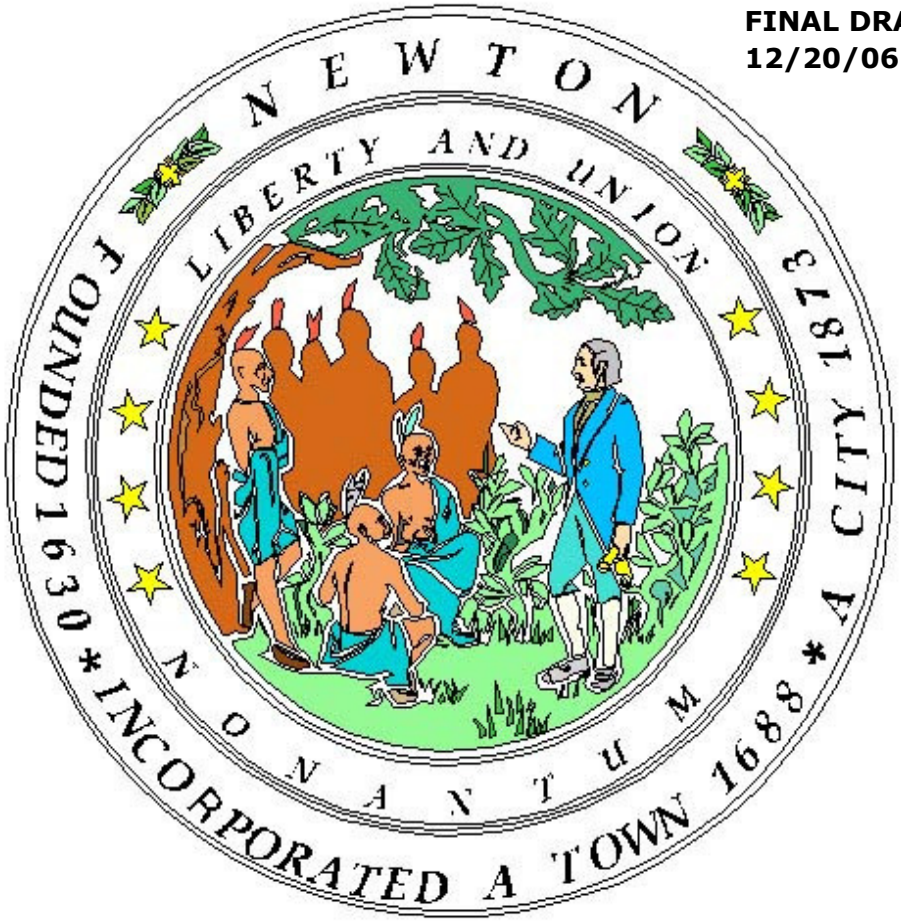
Summary: Sedgwick County's debt financing policy statement, first adopted in 1991 and last resolved in 2003, incorporates all debt, including GO, special assessment, and revenue bonds, as well as temporary notes and lease-purchase agreements. The statement includes limits on direct debt per capita ($500), overall debt per capita, including overlapping and underlying debt ($3,000), and direct and overall debt as a percentage of estimated full market value (1.5% and 6%, respectively). Debt service is limited to 20% of budgeted expenditures. The county's target principal amortization rates are 30% in five years and 60% in 10, with a maximum final maturity of 20 years. A debt management committee, which includes the chief financial officer (CFO), deputy CFO, and budget director, meets at least semiannually to consider debt needs, assess progress on the CIP, test adherence to the debt financing policy statement, and review other issues that may affect the county's debt position. The statement sets forth criteria for determining use of debt versus current resources for capital funding. It also mentions that variable-rate debt can be issued if consistent with state law and bond covenants, and that derivatives should only be considered when there is sufficient understanding of the products and expertise for their appropriate use.

Contact: Chris Chronis, Chief Financial Officer (cchronis@sedgwick.gov)

Policy Web Link: www.sedgwickcounty.org/finance/debt_policy.pdf

2005 FINANCIAL TREND & BENCHMARKING REPORT
Newton vs. Massachusetts Communities

FINAL DRAFT:
12/20/06



DECEMBER 2006

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December 20, 2006

Mayor

I am most pleased to present the 2005 Financial Trend and Benchmarking Report for the City of Newton. This report was prepared by graduate students at the John F. Kennedy School of Government at Harvard University, under the guidance of Assistant Academic Dean Carolyn Wood and myself. It provides analysis of financial trends in Newton for fiscal years 2001 through 2005, and compares fiscal year 2005 financial data for Newton with data from eight other municipalities: Belmont, Brookline, Lexington, Wellesley and Winchester and the cities of Cambridge, Somerville and Waltham.

The communities were chosen by Kennedy School faculty and staff in consultation with Newton Mayor David Cohen and Newton professional staff and volunteers. The goal was to compare Newton with affluent residential towns in the same region, and to contrast Newton with greater Boston cities that have a larger commercial, industrial or non-for-profit tax base. Newton also wanted to include some communities with a triple A bond rating and a strong commitment to investment in education. Finally, Somerville was included on the basis of the city's relationship with the Kennedy School and the desire on the part of city officials to participate in the project.

Variables to be benchmarked were chosen by the students and their faculty and staff advisors in consultation with Newton Chief Administrative Office Sandy Pooler and Comptroller David Wilkinson, with additional input from members of the Mayor's Blue Ribbon Commission on City Financial and Budget issues. Financial data was obtained from statewide records posted on the Massachusetts Department of Revenue website. Students compiled the data, then reviewed a copy of the draft report with the Chief Financial Officer in each community to check for errors and uncover any discrepancies due to differences in financial reporting between municipalities.

We hope this report is beneficial and look forward to reviewing this material in detail with the entire Newton community.

Sincerely yours,

Linda Bilmes
Lecturer, Public Policy
Applied Budgeting, STM-411V

ACKNOWLEDGEMENTS

The student team acknowledges and thanks the Kennedy School of Government, the Rappaport Institute for Greater Boston, the cities of Newton, Cambridge, Somerville and Waltham and the towns of Belmont, Brookline, Lexington, Wellesley and Winchester for making this project possible.

We also appreciate the assistance we received from the following individuals: Linda Bilmes and Carolyn Wood from the Kennedy School of Government, Sandy Pooler, David Wilkinson, and Susan Burstein from the City of Newton, Betsy Harper and Malcolm Salter from the Newton Blue Ribbon Commission, Barbara Hagg from the Town of Belmont, Sean Cronin from the Town of Brookline, Louis Depasquale from the City of Cambridge, Rob Addelson and Michael Young from the Town of Lexington, Edward Bean from the City of Somerville, Dennis Quinn from the City of Waltham, Joe Bonner from the Town of Winchester, and Sheryl Strother from the Town of Wellesley.

EXECUTIVE SUMMARY

Land Area and Socioeconomic Data

Newton is the largest community in the sample in terms of land area, and the 2nd-largest in population. It ranks 4th in the sample for 1999 median household income, and 5th for the number of schoolchildren as a percentage of population in 2005.

Revenue, Tax Base and Property Taxes

In general, Newton falls in the middle to upper range of the communities studied for most variables relating to assessed value of property and revenue from the property tax per capita. Wellesley is the high value for these variables, and Somerville represents the low value.

Newton ranks 8th in the sample for net state aid per capita. Somerville receives at least twice the state aid per capita for all other communities in the study; only Wellesley receives less state aid than Newton.

Cambridge and Waltham stand out for the large proportion of their tax bases attributable to commercial and industrial property. The commercial and industrial tax base in these two cities creates significant excess capacity as a percentage of the levy limit. Cambridge also has a large percentage of its assessed value in tax-exempt property, and has negotiated significant Payment In Lieu of Taxes agreements with these property owners.

Newton is one of six communities in the sample with a split tax rate, which shifts a portion of the tax burden attributable to residential uses to commercial and industrial property owners. It is the only *city* in the sample that has not adopted a 20% residential exemption for owner-occupied single family homes. This option shifts a portion of the residential tax base from owners who occupy ther units to owners of residential rental property. Newton's average single-family property tax bill of $7,047 for 2005 is the lowest among the communities in the sample that have not adopted the residential exemption.

Spending Per Capita

Newton ranks 7th in the sample for total spending per capita. Lexington represents the high value for total spending, and Somerville the low value. Newton ranks 8th for total public safety spending, 3rd for spending on public works, 2nd for spending on health and welfare, and 5th for education spending per pupil.

Debt Per Capita

Newton has low levels of debt compared to other communities in the study. The city ranks either 8th or 9th for outstanding debt per capita, total debt service per capita, general fund debt service per capita, debt service as a percentage of the general fund and net debt service per capita. Cambridge and Lexington represent the high values for the debt variables; Newton's levels of debt are most comparable to the city of Somerville.

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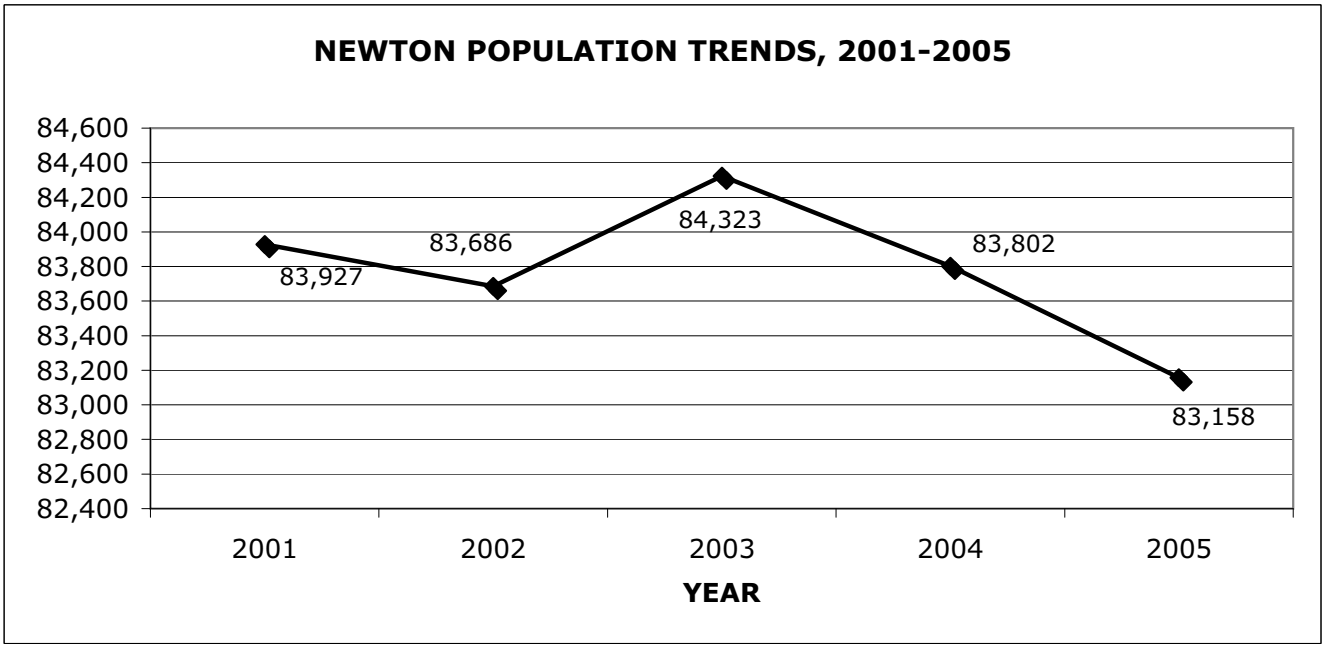
GENERAL DATA

NEWTON: POPULATION TRENDS, 2001-2005 ESTIMATES
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuff/socieconomic/pop00005.xls

YEAR	POPULATION
2001	83,927
2002	83,686
2003	84,323
2004	83,802
2005	83,158

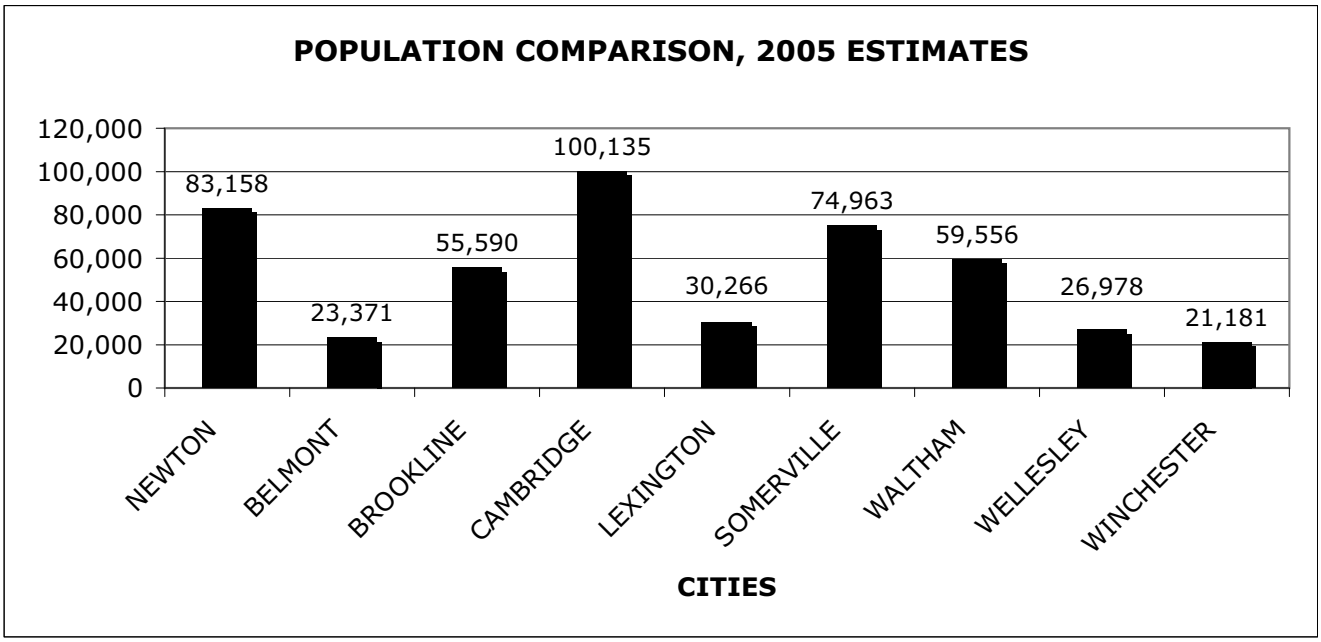


NOTES:
1. Department of Revenue estimates for 2001-2005 based on 2000 Census data.

POPULATION COMPARISON, 2005 ESTIMATES

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuff/socieconomic/pop00005.xls

MUNICIPALITY	POPULATION
NEWTON	83,158
BELMONT	23,371
BROOKLINE	55,590
CAMBRIDGE	100,135
LEXINGTON	30,266
SOMERVILLE	74,963
WALTHAM	59,556
WELLESLEY	26,978
WINCHESTER	21,181

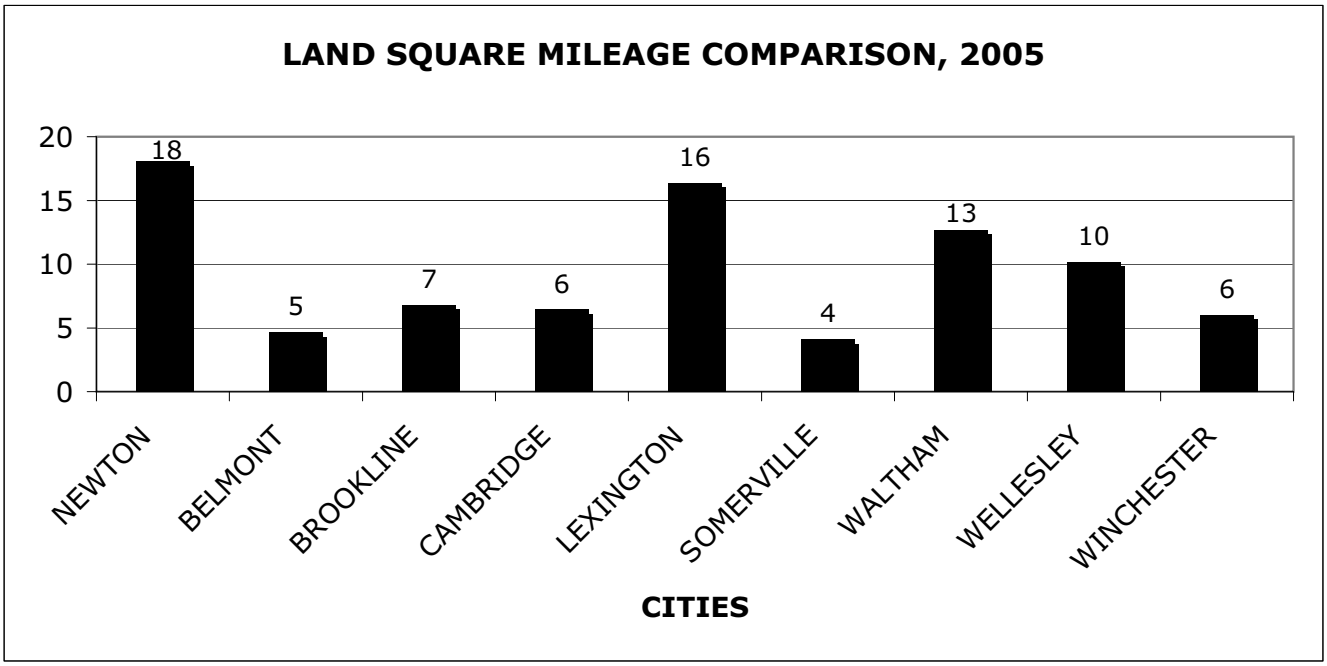


NOTES:

1. All 2005 per capita data shown throughout the report are based on the Department of Revenue estimates above.

LAND SQUARE MILEAGE AND TOTAL PARCEL COMPARISON, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.mma.org/images/stories/RelatedResourcesAttachments/Comparisondata.xls

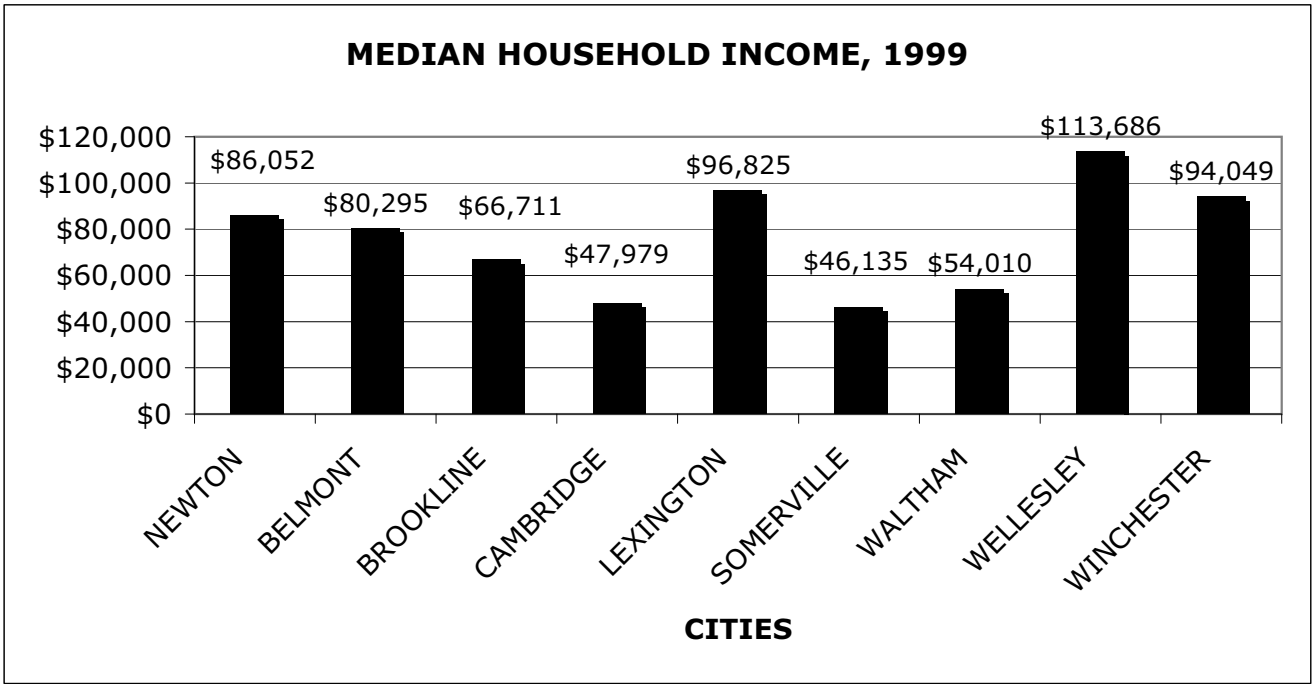
MUNICIPALITY	LAND SQUARE MILEAGE	TOTAL PARCEL	POPULATION	POPULATION PER SQ. MILE	AVG. PARCEL SIZE IN ACRES
NEWTON	18	26,561	83,158	4,607	0.43
BELMONT	5	7,877	23,371	5,015	0.38
BROOKLINE	7	15,836	55,590	8,187	0.27
CAMBRIDGE	6	21,312	100,135	15,573	0.19
LEXINGTON	16	11,048	30,266	1,845	0.95
SOMERVILLE	4	14,494	74,963	18,239	0.18
WALTHAM	13	14,633	59,556	4,689	0.56
WELLESLEY	10	8,365	26,978	2,650	0.78
WINCHESTER	6	7,611	21,181	3,507	0.51



NOTES:
1. Average parcel size in acres is equal to total land area in square miles times 640, divided by total number of parcels.

MEDIAN HOUSEHOLD INCOME COMPARISON, 1999
Sources: United States Census, 2000
http://www.dls.state.ma.us/mdmstuf/Socioeconomic/Wealth.xls

MUNICIPALITY	MEDIAN INCOME
NEWTON	$86,052
BELMONT	$80,295
BROOKLINE	$66,711
CAMBRIDGE	$47,979
LEXINGTON	$96,825
SOMERVILLE	$46,135
WALTHAM	$54,010
WELLESLEY	$113,686
WINCHESTER	$94,049

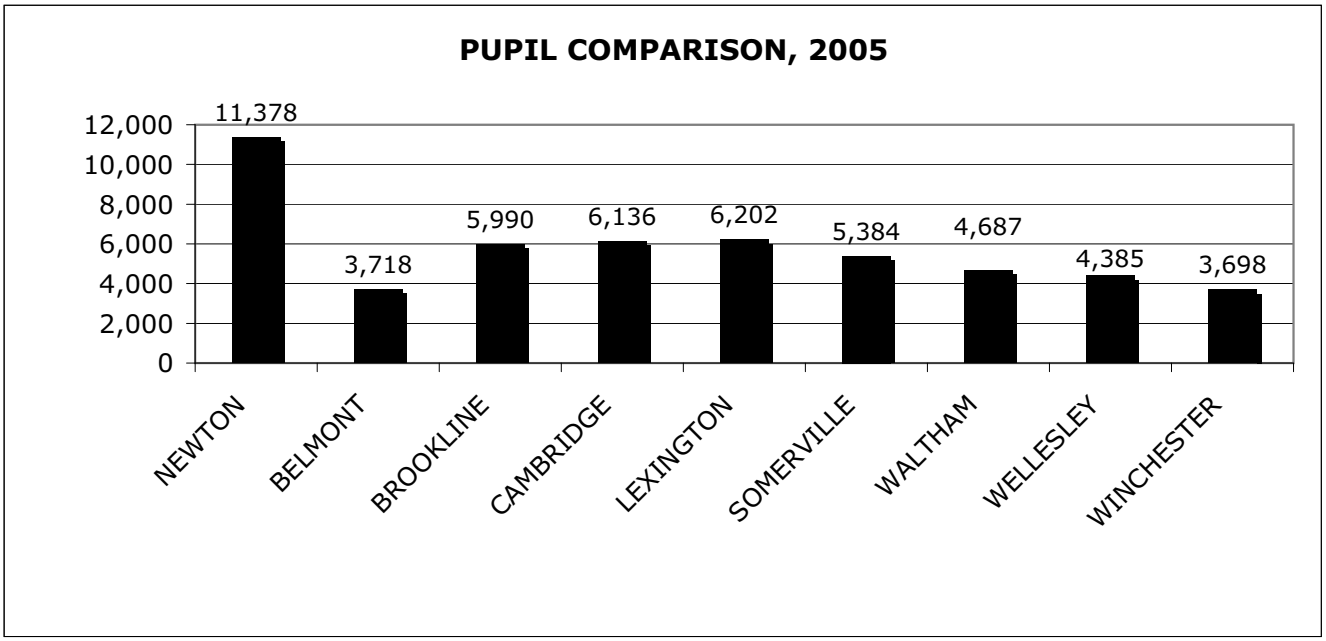


NOTES:
1. Median Household income is defined as median income for an entire household regardless of the relationship between the inhabitants.

PUPIL COMPARISON, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://finance1.doe.mass.edu/statistics/pp05.xls

MUNICIPALITY	NO. OF PUPILS	POPULATION	PUPILS AS % OF POP
NEWTON	11,378	83,158	14%
BELMONT	3,718	23,371	16%
BROOKLINE	5,990	55,590	11%
CAMBRIDGE	6,136	100,135	6%
LEXINGTON	6,202	30,266	20%
SOMERVILLE	5,384	74,963	7%
WALTHAM	4,687	59,556	8%
WELLESLEY	4,385	26,978	16%
WINCHESTER	3,698	21,181	17%

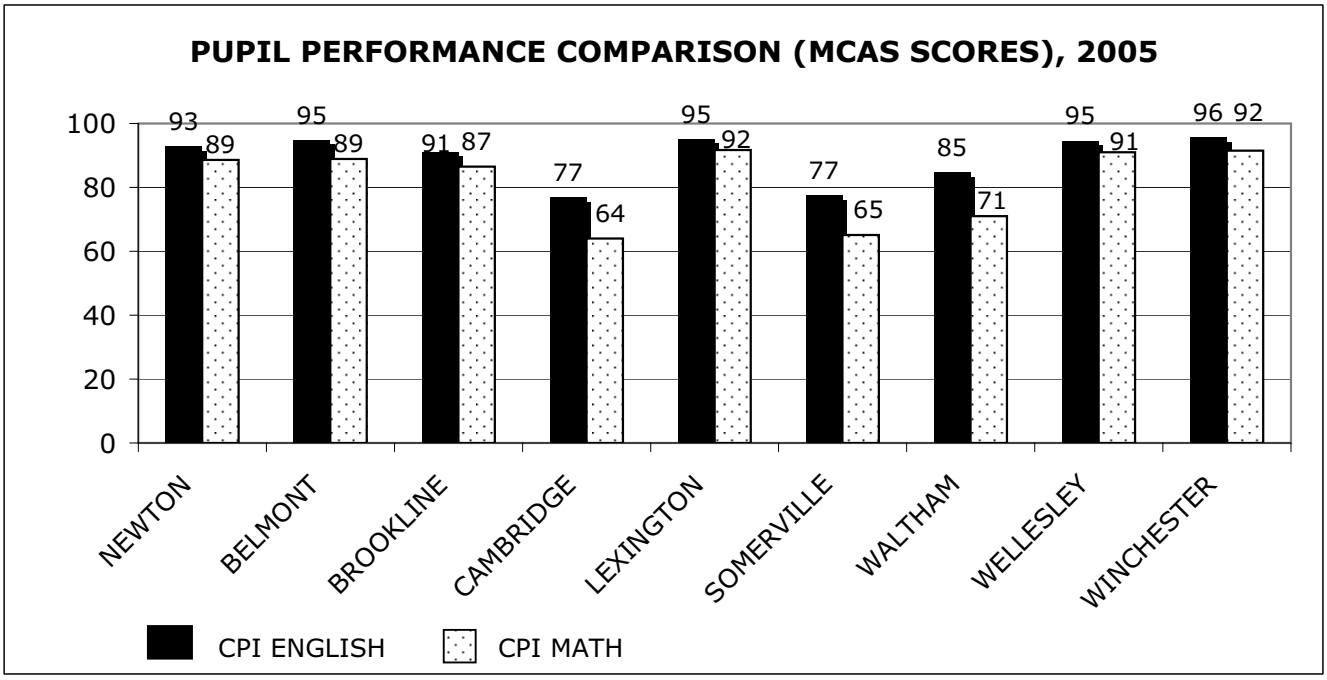


NOTES:

1. Pupils are all locally enrolled students plus any pupils enrolled from other districts through the school choice or other tuition programs. Pupils from private schools are not included.

PUPIL PERFORMANCE COMPARISON (MCAS SCORE), 2005
Sources: Massachusetts Department of Education
http://profiles.doe.mass.edu/

MUNICIPALITY	CPI ENGLISH	CPI MATH
NEWTON	93	89
BELMONT	95	89
BROOKLINE	91	87
CAMBRIDGE	77	64
LEXINGTON	95	92
SOMERVILLE	77	65
WALTHAM	85	71
WELLESLEY	95	91
WINCHESTER	96	92

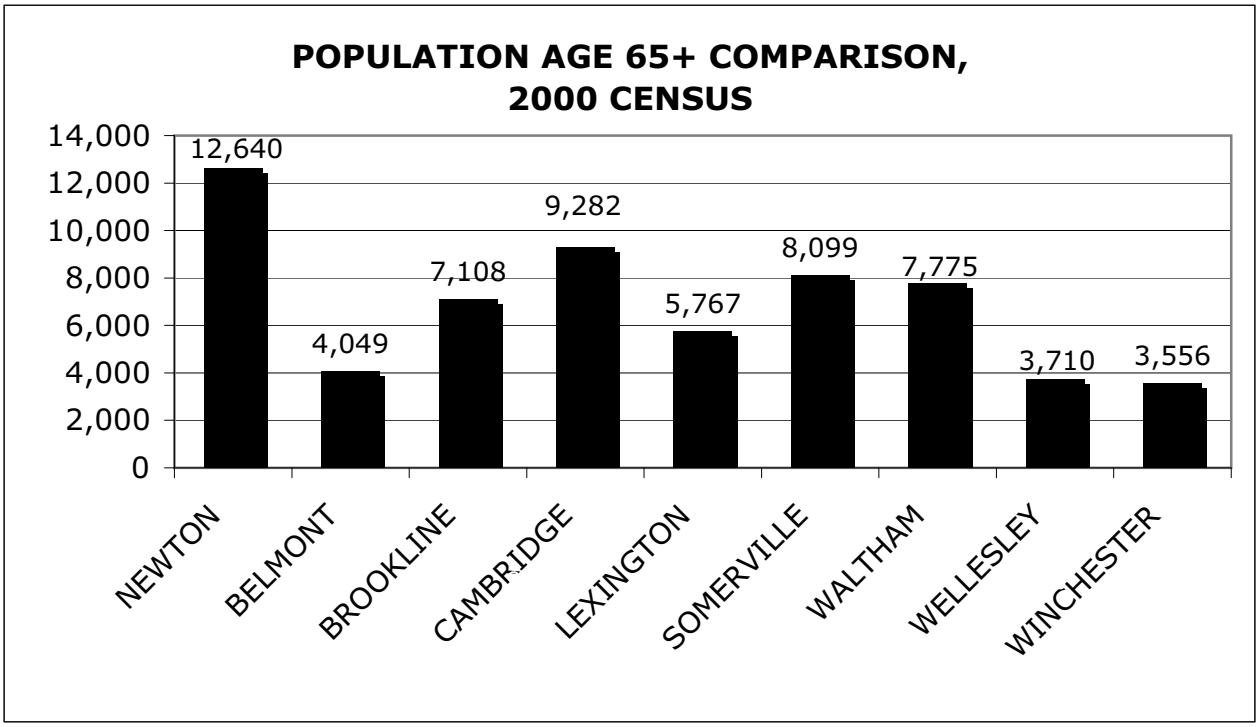


NOTES:

1. The Composite Performance Index (CPI) is a measure of the extent to which students are progressing toward proficiency in English language arts (ELA) and mathematics, respectively.
2. The state target is 80.5 for English and 68.7 for Math.

POPULATION AGE 65+ COMPARISON, 2000 CENSUS
Sources: Massachusetts Department of Public Health
http://masschip.state.ma.us/InstantTopics/instant.asp

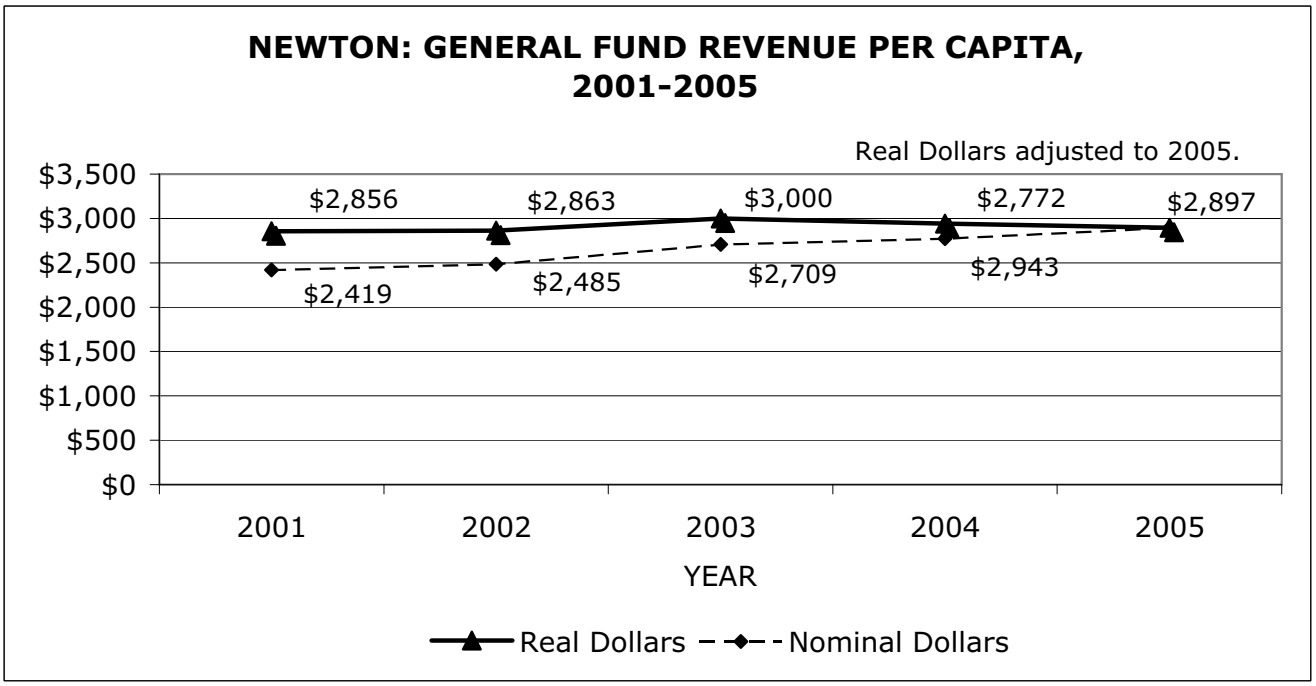
MUNICIPALITY	AGE 65+	POPULATION	65+ AS % OF 2000 POP
NEWTON	12,640	83,829	15%
BELMONT	4,049	24,194	17%
BROOKLINE	7,108	57,107	12%
CAMBRIDGE	9,282	101,355	9%
LEXINGTON	5,767	30,355	19%
SOMERVILLE	8,099	77,478	10%
WALTHAM	7,775	59,226	13%
WELLESLEY	3,710	26,613	14%
WINCHESTER	3,556	20,810	17%



REVENUE

NEWTON: GENERAL FUND REVENUE PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$239,699,909	$203,003,797	83,927	$2,856	$2,419
2002	$239,603,598	$207,986,015	83,686	$2,863	$2,485
2003	$252,942,716	$228,471,644	84,323	$3,000	$2,709
2004	$246,592,007	$232,287,344	83,802	$2,943	$2,772
2005	$240,887,934	$240,887,934	83,158	$2,897	$2,897

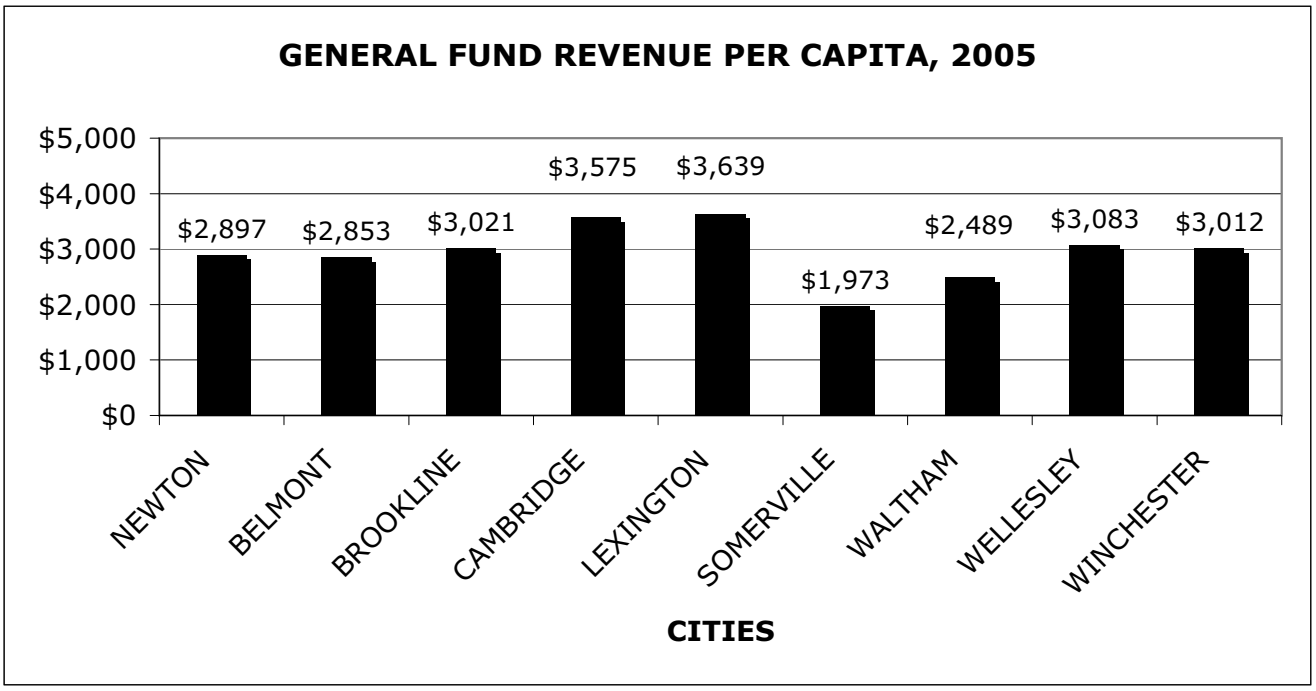


NOTES:
1. General Fund
- Total Taxes (Net of Refunds): Personal property taxes, real estate taxes, excise taxes, penalties and interest, payment in lieu of taxes, other taxes (hotel/motel), urban redevelopment excise and other
- Charges for Services/Other Departmental Revenues: Water Charges, other utility Charges, other charges, parking charges, park and recreational dharges, sewerage charges, trash collection charges,
- Licenses, Permits, and Fees: Fees retained from tax collections and licenses and permits.
- Federal Revenue: Unrestricted, direct and unrestricted, through the state.
- State Revenue
- Revenue from Other Governments: Court fines, revenue received from the county for services performed and revenues received from other municipalities.
- Fines and Forfeitures
- Miscellaneous Revenues: Miscellaneous Revenues and earnings on investments.
- Other Financing Sources: Transfer from special revenue funds, transfers from capital project funds, transfers from enterprise funds, transfers from trust funds and transfers from agency funds.
2. All years adjusted to 2005 dollar values.
3. Excludes revolving funds, enterprise funds and other restricted funds.

REVENUE: GENERAL FUND REVENUE PER CAPITA, 2005

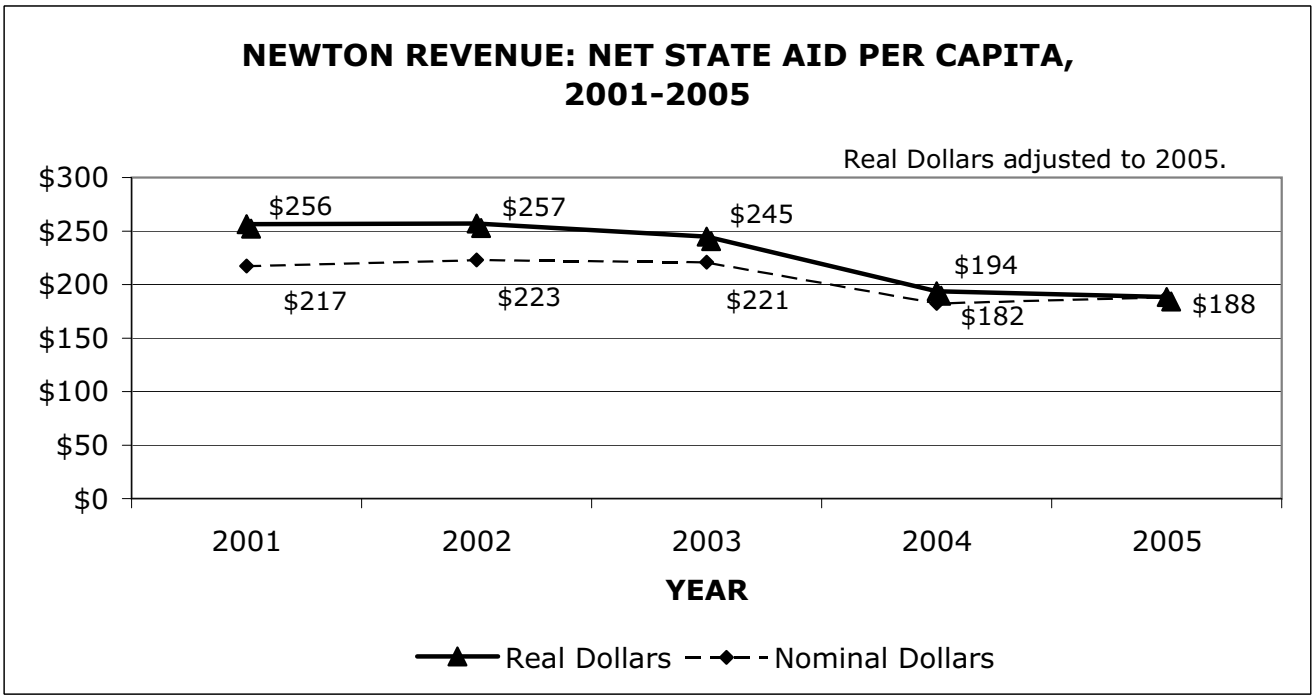
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$240,887,934	83,158	$2,897
BELMONT	$66,688,603	23,371	$2,853
BROOKLINE	$167,934,717	55,590	$3,021
CAMBRIDGE	$357,962,119	100,135	$3,575
LEXINGTON	$110,144,605	30,266	$3,639
SOMERVILLE	$147,931,089	74,963	$1,973
WALTHAM	$148,257,923	59,556	$2,489
WELLESLEY	$83,178,159	26,978	$3,083
WINCHESTER	$63,786,895	21,181	$3,012



NEWTON: NET STATE AID PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
Net Cherry Sheet State Aid, Fiscal Years 2000 - 2007
http://www.dls.state.ma.us/mdmstuf/StateAid/Netcsaid0007.xls

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$21,523,873	$18,228,743	83,927	$256	$217
2002	$21,498,430	$18,661,543	83,686	$257	$223
2003	$20,634,369	$18,638,086	84,323	$245	$221
2004	$16,229,462	$15,288,000	83,802	$194	$182
2005	$15,655,462	$15,655,462	83,158	$188	$188

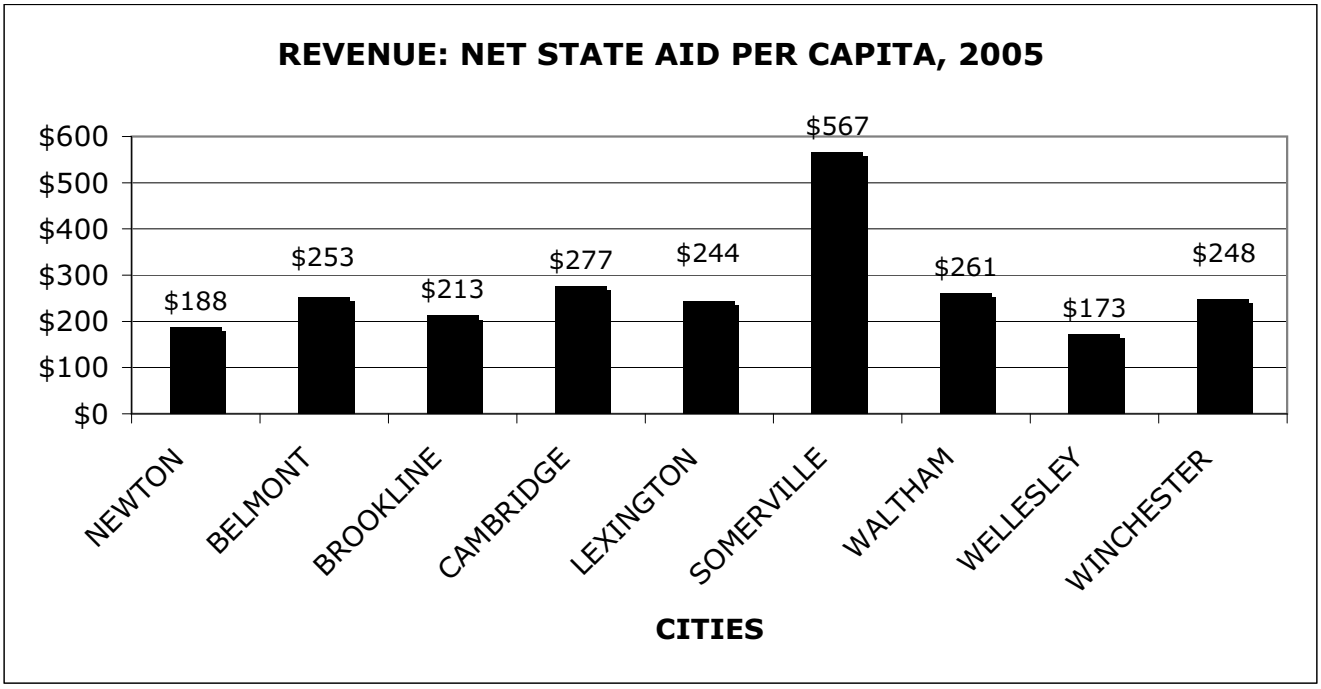


NOTES:
1. Net State Aid per Capita is defined as Cherry Sheet Receipts minus Assessments, divided by total population. The accounts that make up receipts and assessments vary by municipality. More information on state aid is included in appendices.

REVENUE: NET STATE AID PER CAPITA, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
Net Cherry Sheet State Aid, Fiscal Years 2000 - 2007
http://www.dls.state.ma.us/mdmstuf/StateAid/Netcsaid0007.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$15,655,462	83,158	$188
BELMONT	$5,902,382	23,371	$253
BROOKLINE	$11,831,353	55,590	$213
CAMBRIDGE	$27,706,961	100,135	$277
LEXINGTON	$7,385,030	30,266	$244
SOMERVILLE	$42,505,416	74,963	$567
WALTHAM	$15,566,431	59,556	$261
WELLESLEY	$4,654,492	26,978	$173
WINCHESTER	$5,250,795	21,181	$248

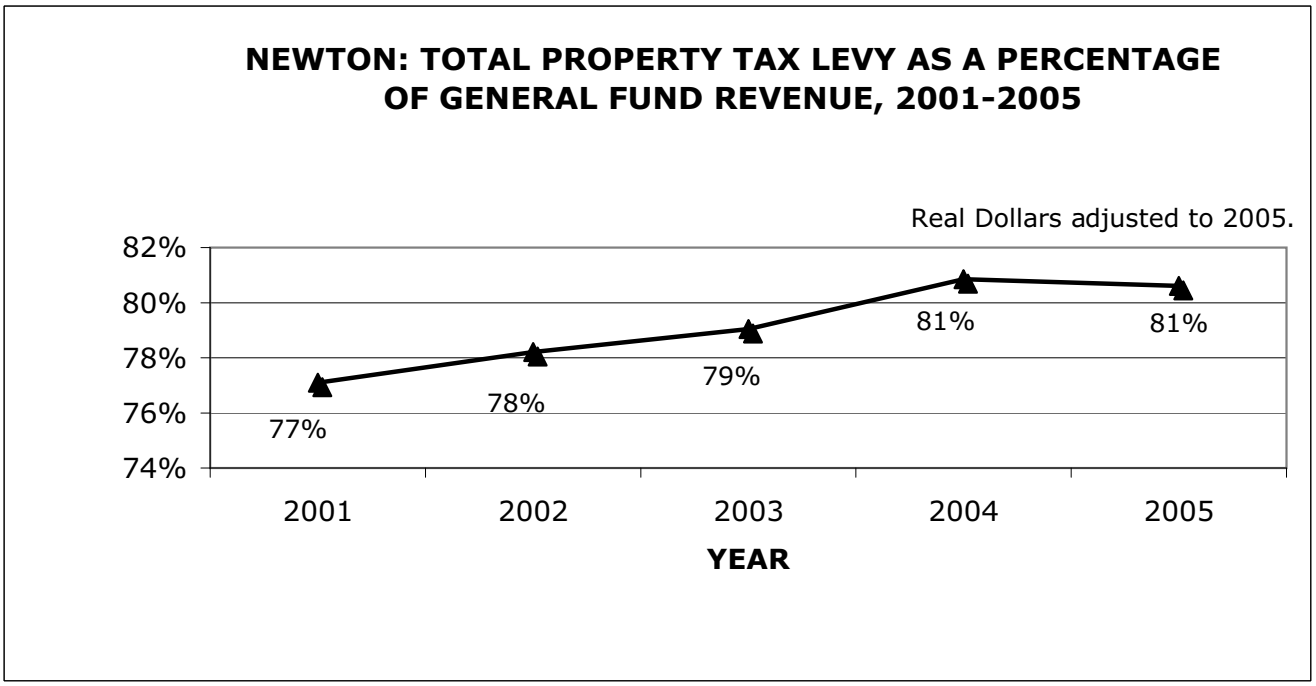


NOTES:

1. See appendices for additional information on state aid account assessments and receipts for FY 2005.
2. Net State Aid per Capita is defined as Cherry Sheet Receipts minus Assessments, divided by total population. The accounts that make up receipts and assessments vary by municipality.

NEWTON: TOTAL PROPERTY TAX LEVY AS A PERCENTAGE OF GENERAL FUND REVENUE, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

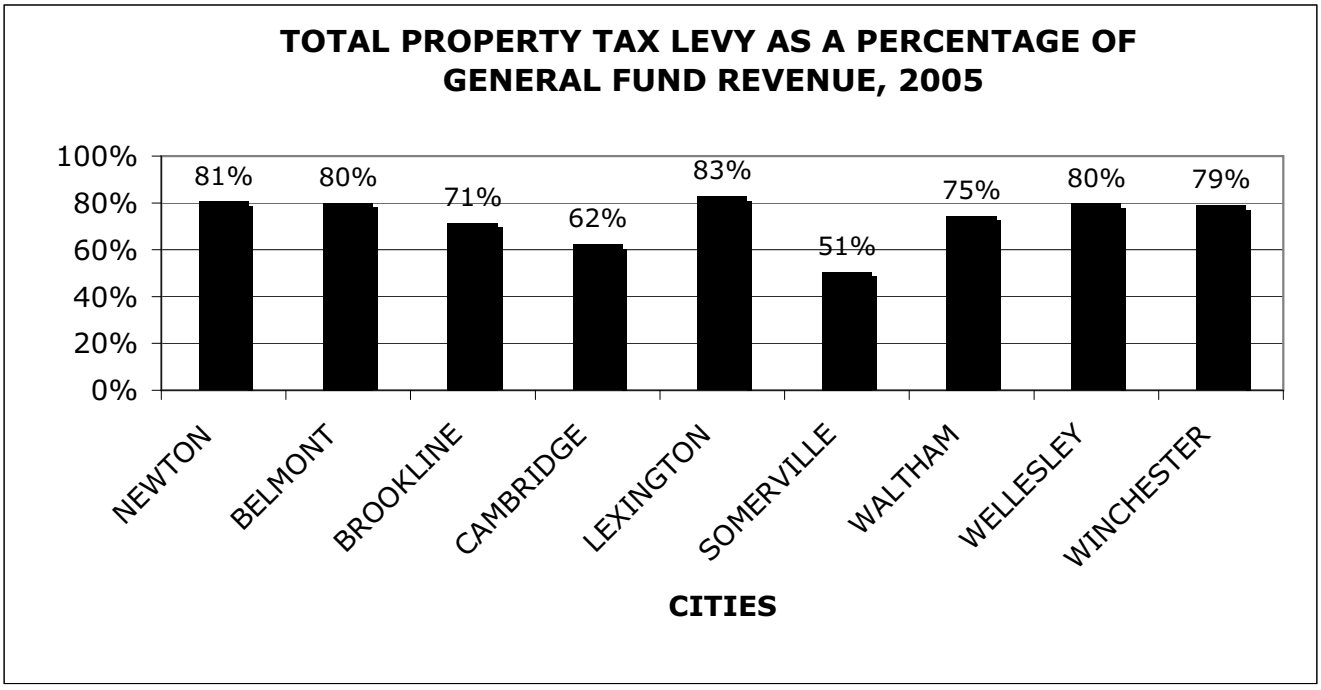
YEAR	REAL GENERAL FUND	REAL PROPERTY TAX	NOMINAL GENERAL FUND	NOMINAL TOTAL PROPERTY TAX	PERCENTAGE OF REVENUE
2001	$239,147,345	$184,365,619	$203,003,797	$156,140,738	77.1%
2002	$239,051,257	$186,947,630	$207,986,015	$162,278,417	78.2%
2003	$252,359,626	$199,467,838	$228,471,644	$180,170,220	79.0%
2004	$246,023,556	$198,924,206	$232,287,344	$187,384,725	80.9%
2005	$240,887,934	$194,189,922	$240,887,934	$194,189,922	80.6%



NOTES:
1. Property Tax Levy as a percent of Revenue is defined as Total Property Levy divided by General Fund Revenue.

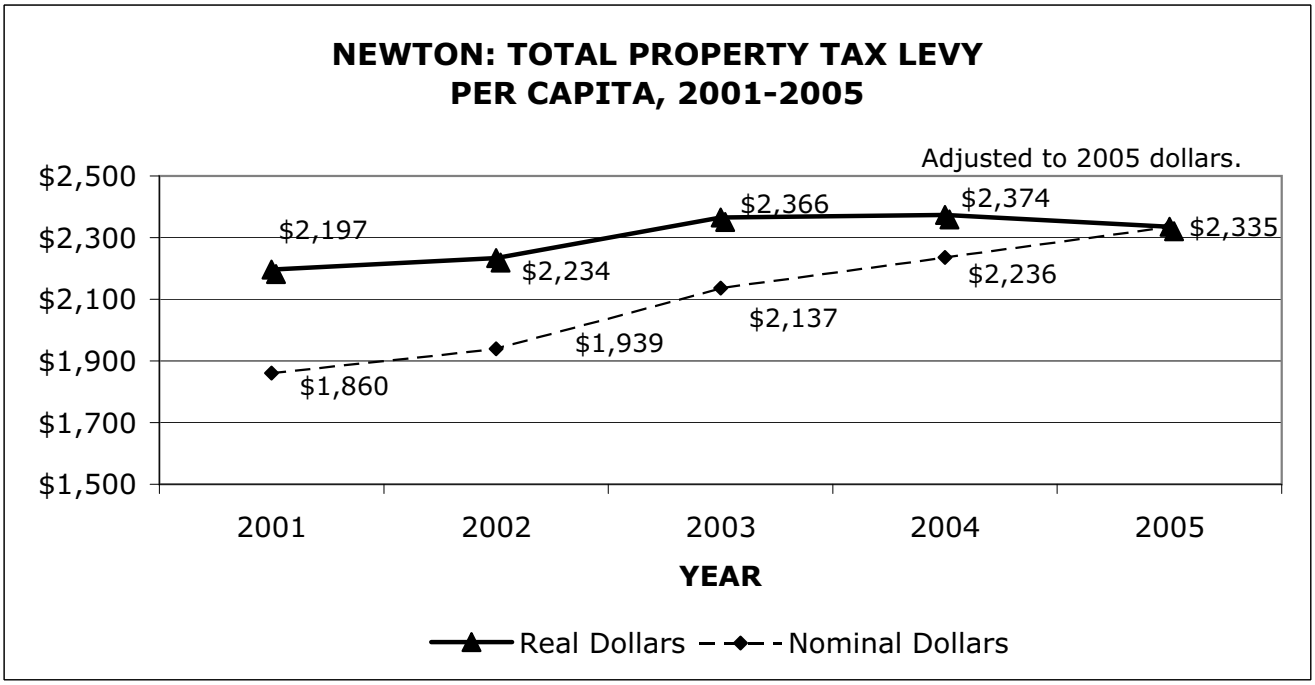
REVENUE: TOTAL PROPERTY TAX LEVY AS A PERCENTAGE OF GENERAL FUND REVENUE, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
FY 00-06 Revenue Components
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

MUNICIPALITY	GENERAL FUND REVENUE	TOTAL PROPERTY TAX	PERCENTAGE OF REVENUE
NEWTON	$240,887,934	$194,189,922	80.6%
BELMONT	$66,688,603	$53,310,525	79.9%
BROOKLINE	$167,934,717	$119,852,204	71.4%
CAMBRIDGE	$357,962,119	$222,953,435	62.3%
LEXINGTON	$110,144,605	$91,156,423	82.8%
SOMERVILLE	$147,931,089	$74,736,578	50.5%
WALTHAM	$148,257,923	$110,522,721	74.5%
WELLESLEY	$83,178,159	$66,326,299	79.7%
WINCHESTER	$63,786,895	$50,417,765	79.0%



NEWTON: TOTAL PROPERTY TAX LEVY PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

YEAR	REAL PROPERTY TAX	NOMINAL PROPERTY TAX	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$184,365,619	$156,140,738	83,927	$2,197	$1,860
2002	$186,947,630	$162,278,417	83,686	$2,234	$1,939
2003	$199,467,838	$180,170,220	84,323	$2,366	$2,137
2004	$198,924,206	$187,384,725	83,802	$2,374	$2,236
2005	$194,189,922	$194,189,922	83,158	$2,335	$2,335

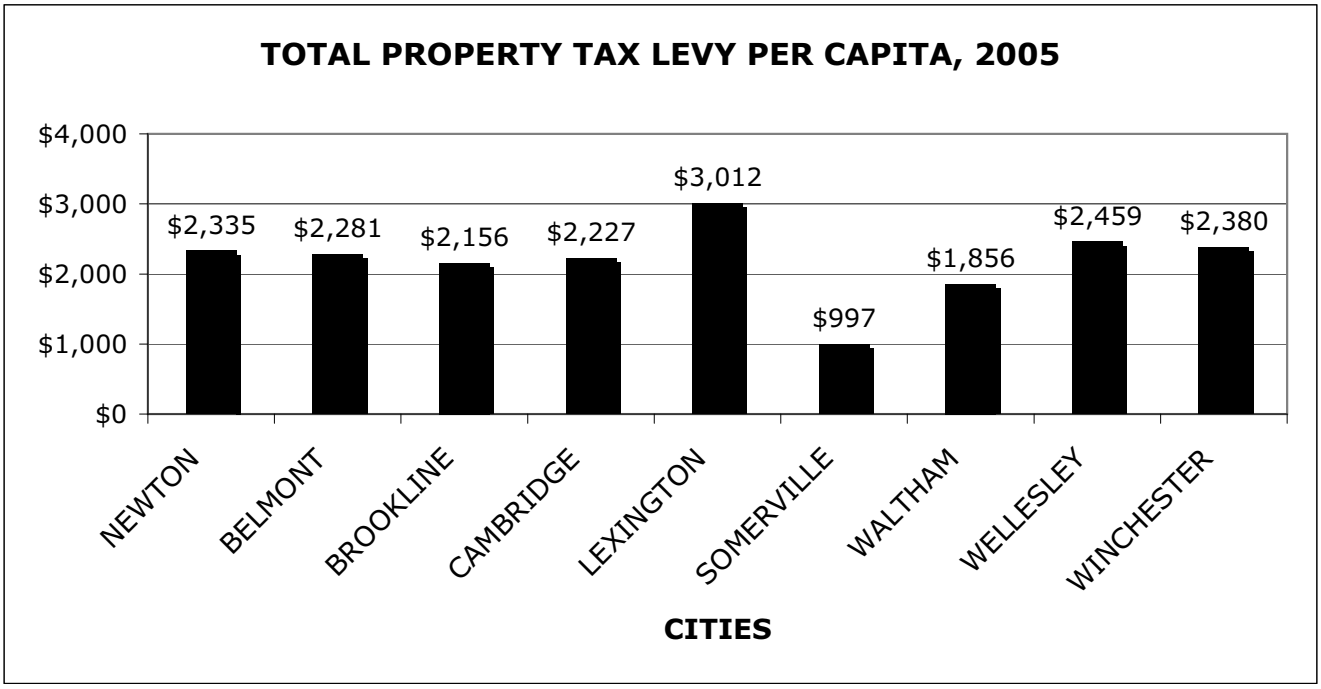


NOTES:
1. Total Property Levy per Capita is defined as the amount a municipality raises each year through the property tax, divided by population for that year. The levy can be any amount up to the levy limit as defined by Proposition 2.5.

REVENUE: TOTAL PROPERTY TAX LEVY PER CAPITA, 2005

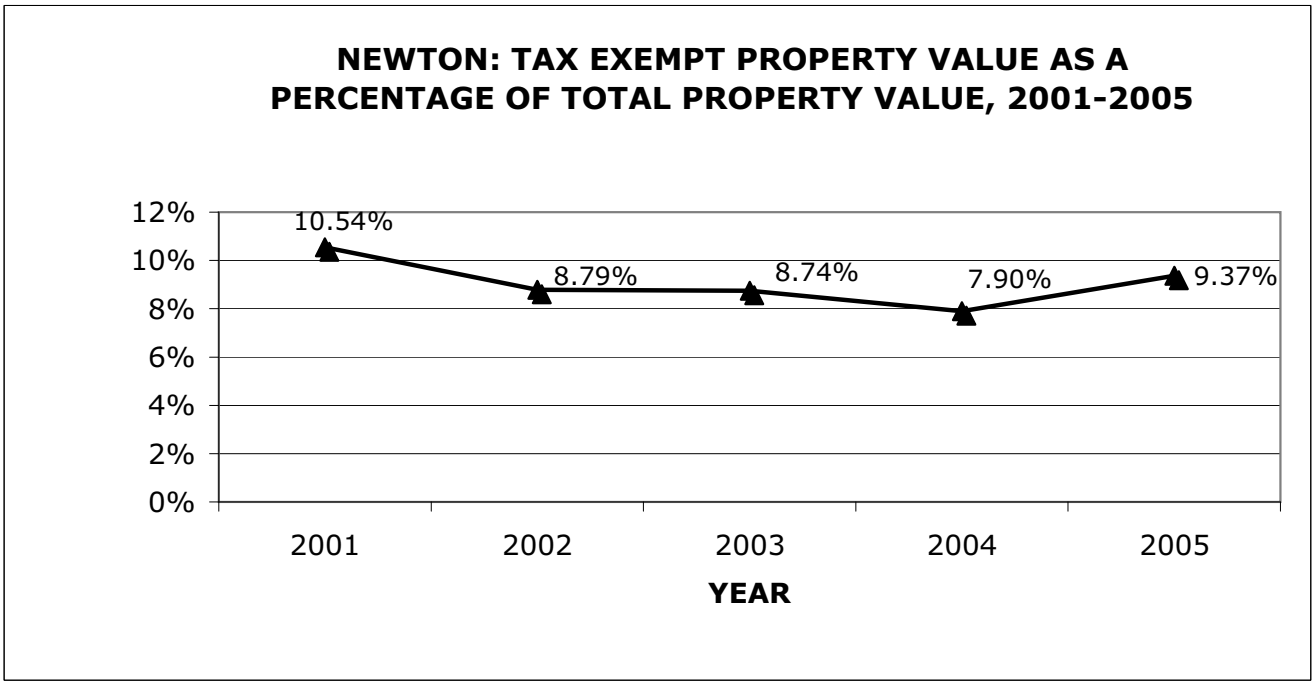
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalBudgetedRevenues/Revs0006.xls

MUNICIPALITY	PROPERT TAX AMOUNT	POPULATION	PER CAPITA
NEWTON	$194,189,922	83,158	$2,335
BELMONT	$53,310,525	23,371	$2,281
BROOKLINE	$119,852,204	55,590	$2,156
CAMBRIDGE	$222,953,435	100,135	$2,227
LEXINGTON	$91,156,423	30,266	$3,012
SOMERVILLE	$74,736,578	74,963	$997
WALTHAM	$110,522,721	59,556	$1,856
WELLESLEY	$66,326,299	26,978	$2,459
WINCHESTER	$50,417,765	21,181	$2,380



NEWTON: TAX EXEMPT PROPERTY VALUE AS A PERCENTAGE OF TOTAL PROPERTY VALUE, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/PropertyValues0006.xls

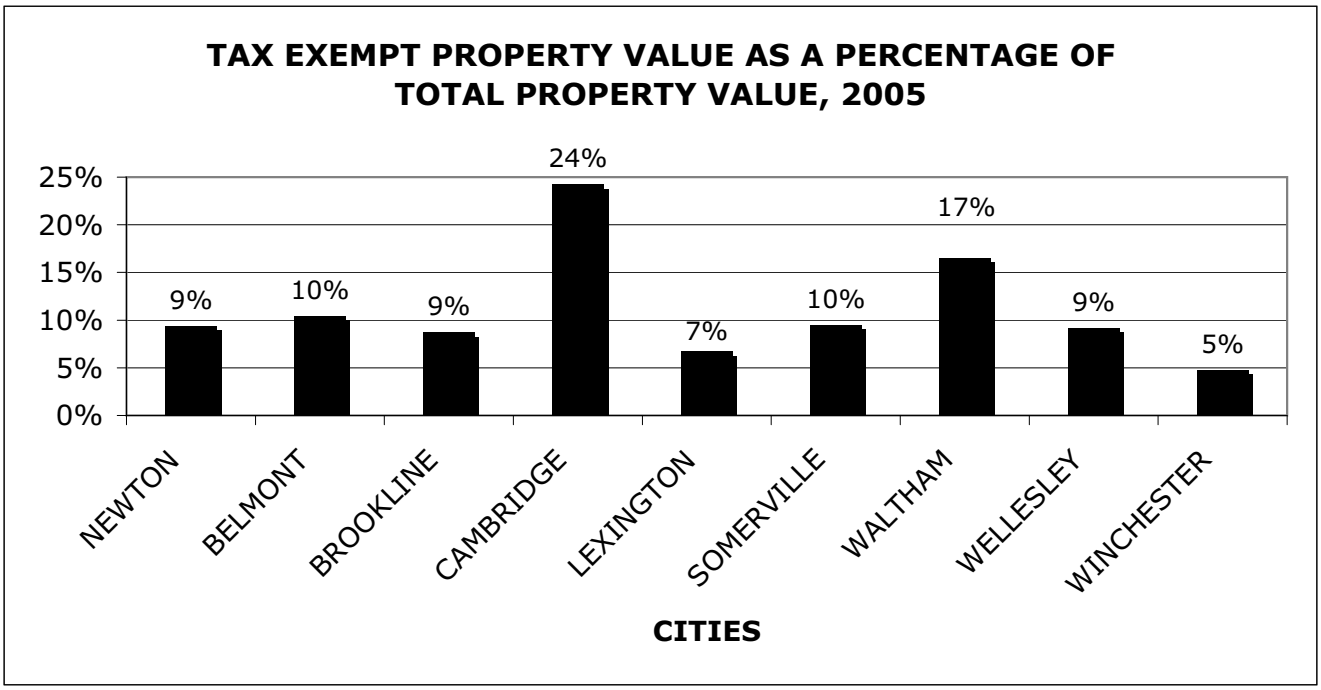
YEAR	PERCENTAGE
2001	10.54%
2002	8.79%
2003	8.74%
2004	7.90%
2005	9.37%



NOTES:
1. Includes churches, synagogues, and other organizations with tax exempt status.

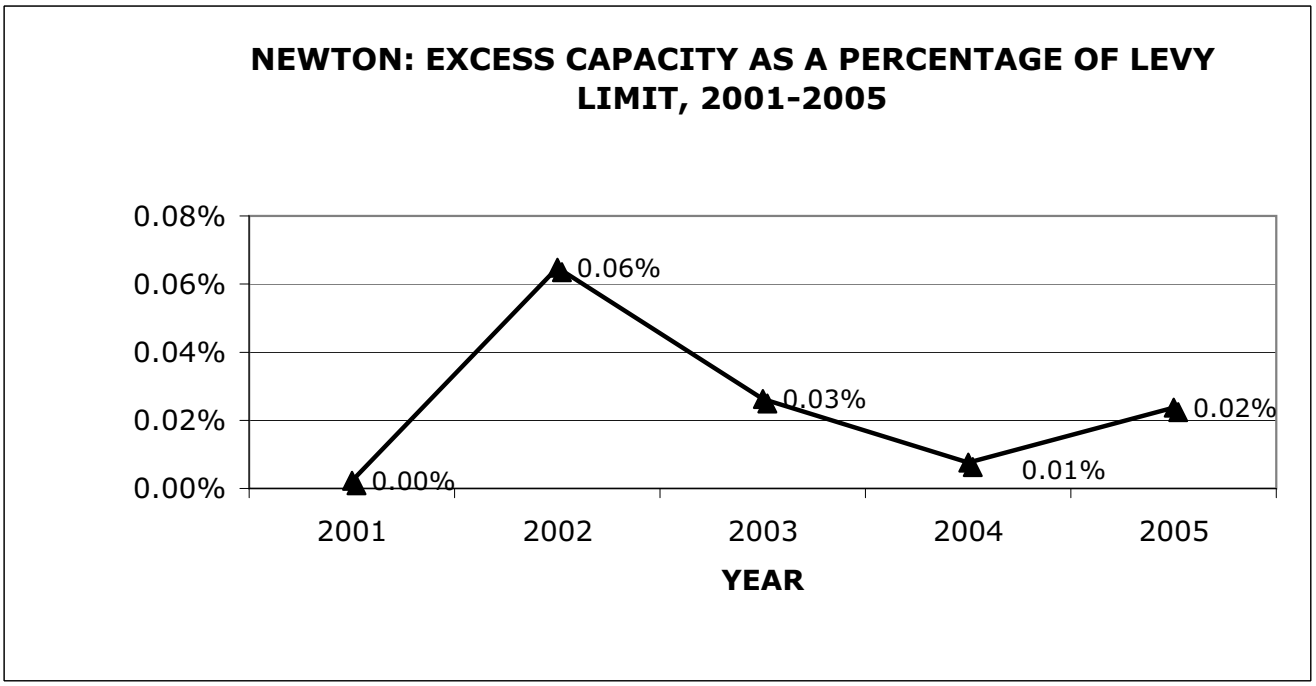
TAX EXEMPT PROPERTY VALUE AS A PERCENTAGE OF TOTAL PROPERTY VALUE, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/PropertyValues0006.xls

MUNICIPALITY	PERCENTAGE
NEWTON	9.37%
BELMONT	10.45%
BROOKLINE	8.75%
CAMBRIDGE	24.25%
LEXINGTON	6.72%
SOMERVILLE	9.52%
WALTHAM	16.55%
WELLESLEY	9.17%
WINCHESTER	4.80%



NEWTON: EXCESS CAPACITY AS A PERCENTAGE OF THE LEVY LIMIT, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/excp0006.xls

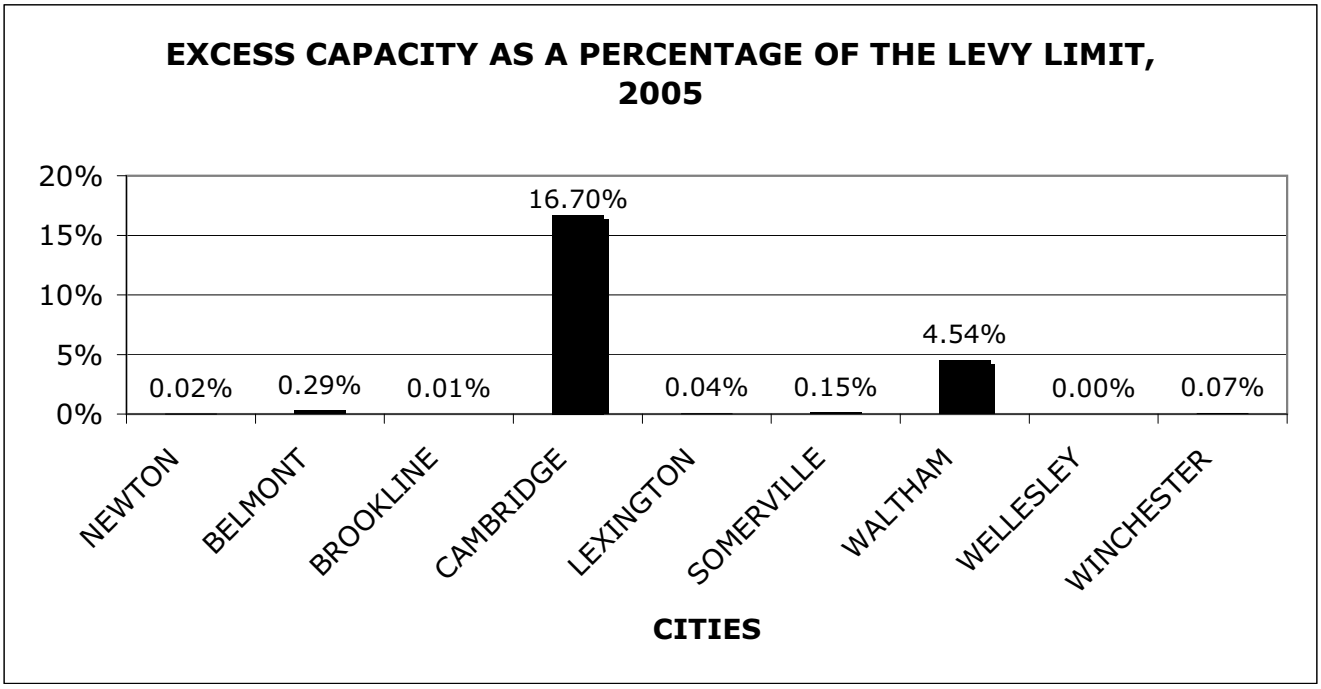
YEAR	LEVY LIMIT	EXCESS CAPACITY	PERCENTAGE
2001	$156,144,302	$3,564	0.00%
2002	$162,383,710	$105,293	0.06%
2003	$180,174,491	$47,271	0.03%
2004	$187,398,920	$14,195	0.01%
2005	$194,235,942	$46,021	0.02%



NOTES:
Excess capacity is the percentage by which the community's total tax levy falls short of the levy limit, which is the maximum tax levy allowed by law. The levy limit may increase by 2.5% each year, plus new growth and any overrides of Proposition 2.5.

EXCESS CAPACITY AS A PERCENTAGE OF THE LEVY LIMIT, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/excp0006.xls

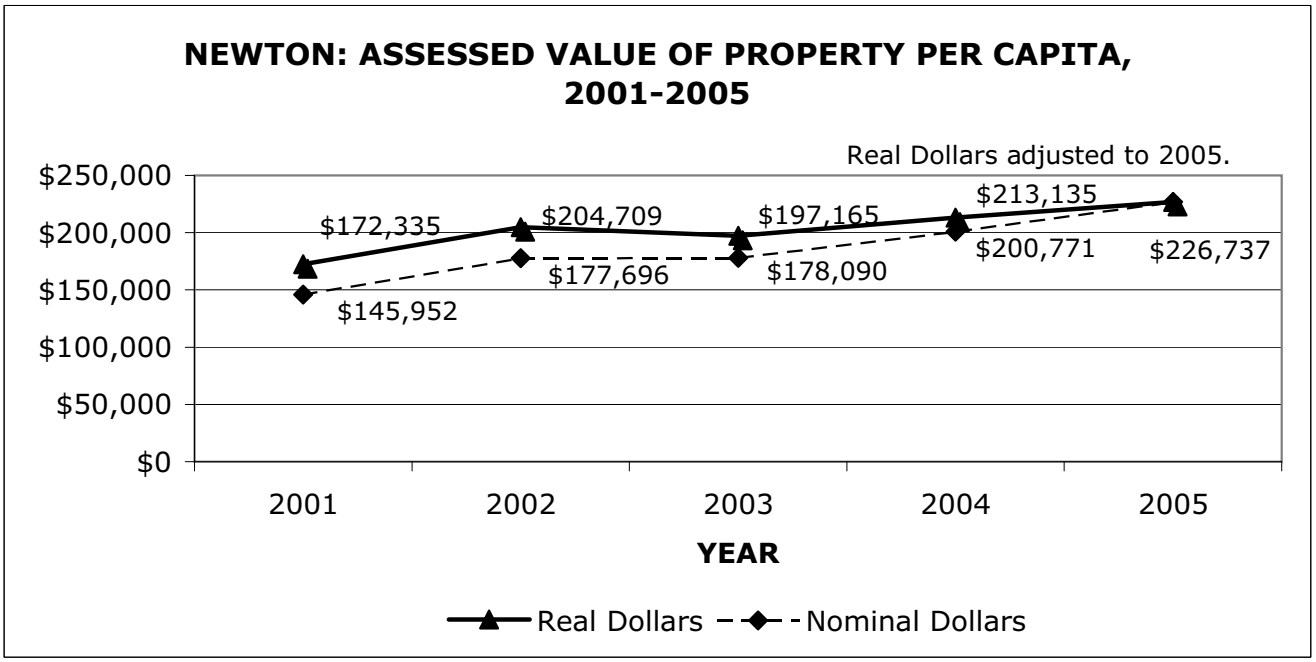
MUNICIPALITY	LEVY LIMIT	EXCESS CAPACITY	PERCENTAGE
NEWTON	$194,235,942	$46,021	0.02%
BELMONT	$23,742,769	$67,998	0.29%
BROOKLINE	$119,863,192	$10,988	0.01%
CAMBRIDGE	$267,653,208	$44,699,773	16.70%
LEXINGTON	$91,193,879	$37,455	0.04%
SOMERVILLE	$74,846,633	$110,055	0.15%
WALTHAM	$115,777,311	$5,254,590	4.54%
WELLESLEY	$63,739,491	$308	0.00%
WINCHESTER	$50,452,063	$34,297	0.07%



NOTES:
Excess capacity is the percentage by which the community's total tax levy falls short of the levy limit, which is the maximum tax levy allowed by law. The levy limit may increase by 2.5% each year, plus new growth and any overrides of Proposition 2.5.

NEWTON: ASSESSED VALUE OF PROPERTY PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$14,463,572,879	$12,249,317,200	83,927	$172,335	$145,952
2002	$17,131,268,238	$14,870,662,400	83,686	$204,709	$177,696
2003	$16,625,519,570	$15,017,075,200	84,323	$197,165	$178,090
2004	$17,861,157,145	$16,825,041,600	83,802	$213,135	$200,771
2005	$18,854,982,400	$18,854,982,400	83,158	$226,737	$226,737

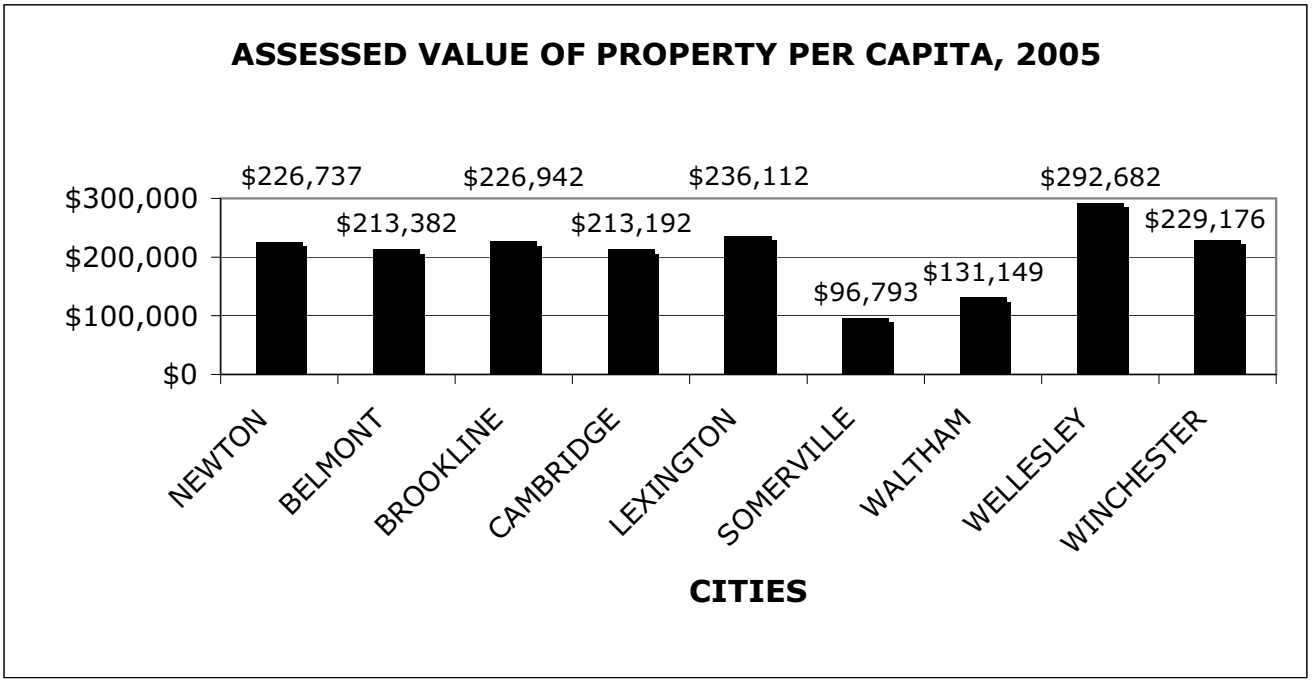


NOTES:
1. Assessed Value of Property Per Capita is the dollar value assigned to real estate parcels or other property by a government unit as the basis for levying taxes. In Massachusetts, assessed valuation is based on the amount a willing buyer would pay a willing seller on the open market (Full and Fair Cash Value). Assessors are required to collect, record and analyze information about the physical characteristics of the property and the real estate market to estimate the full and fair cash value of all taxable properties in their communities.

ASSESSED VALUE OF PROPERTY, 2005

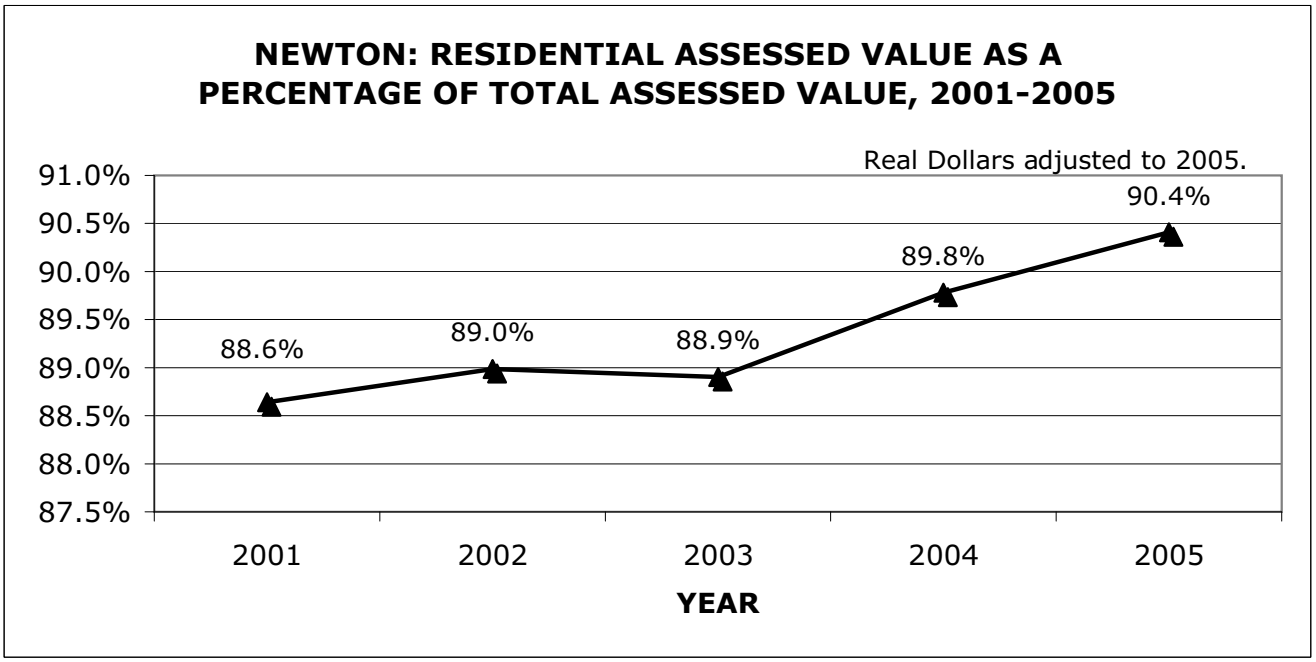
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$18,854,982,400	83,158	$226,737
BELMONT	$4,986,952,850	23,371	$213,382
BROOKLINE	$12,615,710,980	55,590	$226,942
CAMBRIDGE	$21,348,000,524	100,135	$213,192
LEXINGTON	$7,146,167,360	30,266	$236,112
SOMERVILLE	$7,255,884,000	74,963	$96,793
WALTHAM	$7,810,723,666	59,556	$131,149
WELLESLEY	$7,895,988,000	26,978	$292,682
WINCHESTER	$4,854,183,258	21,181	$229,176



NEWTON: RESIDENTIAL ASSESSED VALUE AS A PERCENTAGE OF TOTAL ASSESSED VALUE, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

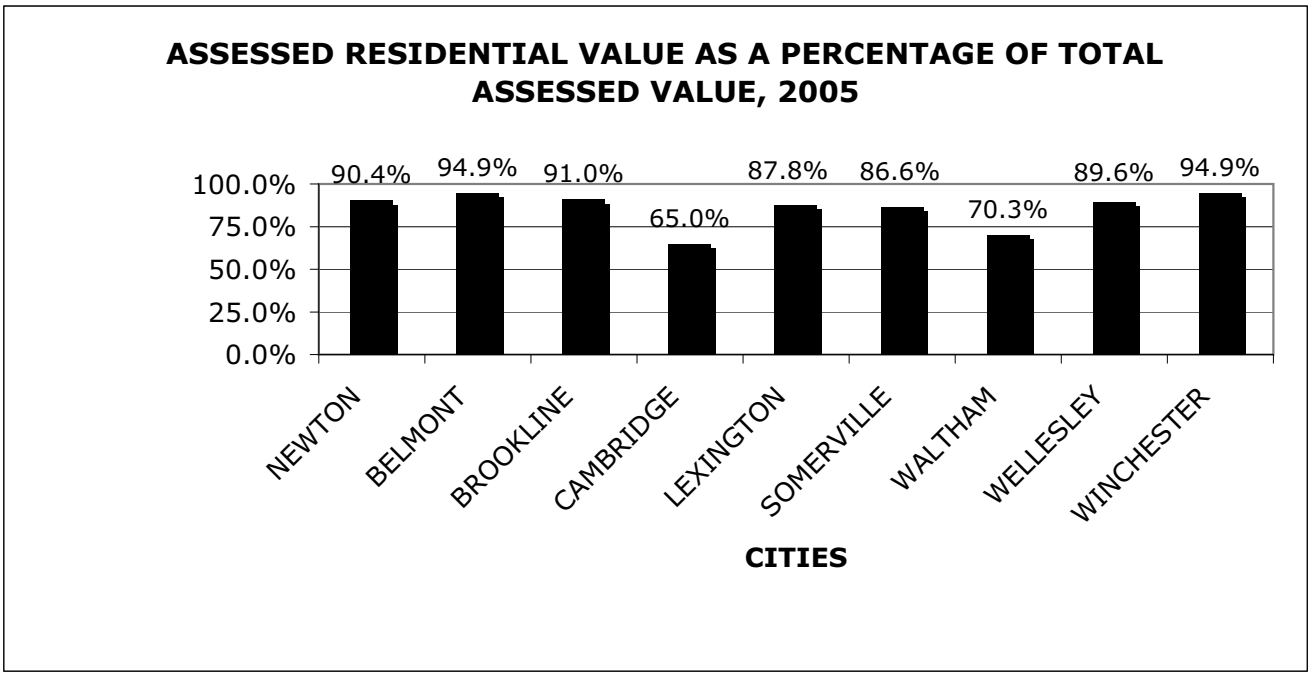
YEAR	RESIDENTIAL AMOUNT	TOTAL AMOUNT	PERCENTAGE
2001	$10,857,798,128	$12,249,317,200	88.6%
2002	$13,232,606,650	$14,870,662,400	89.0%
2003	$13,350,364,729	$15,017,075,200	88.9%
2004	$15,105,379,601	$16,825,041,600	89.8%
2005	$17,046,470,917	$18,854,982,400	90.4%



NOTES:
1. (Residential + Open Space)/(Total Assessed Value). There is No Open Space Assessed Values for Newton.

RESIDENTIAL ASSESSED VALUE AS A PERCENTAGE OF TOTAL ASSESSED VALUE, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

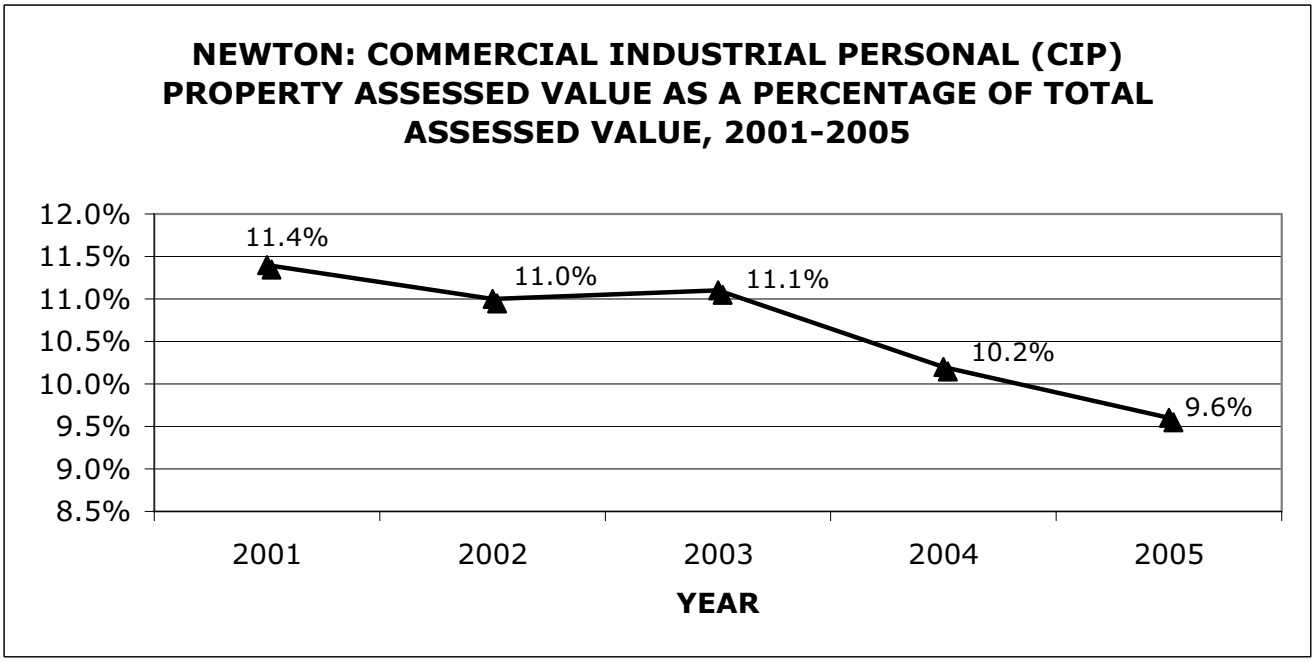
MUNICIPALITY	RESIDENTIAL AMOUNT	TOTAL AMOUNT	PERCENTAGE
NEWTON	$17,046,470,917	$18,854,982,400	90.4%
BELMONT	$4,732,665,050	$4,986,952,850	94.9%
BROOKLINE	$11,483,130,900	$12,615,710,980	91.0%
CAMBRIDGE	$13,871,143,472	$21,348,000,524	65.0%
LEXINGTON	$6,275,351,000	$7,146,167,360	87.8%
SOMERVILLE	$6,282,436,389	$7,255,884,000	86.6%
WALTHAM	$5,487,525,201	$7,810,723,666	70.3%
WELLESLEY	$7,073,527,000	$7,895,988,000	89.6%
WINCHESTER	$4,607,480,711	$4,854,183,258	94.9%



NEWTON: COMMERCIAL INDUSTRIAL PERSONAL (CIP) PROPERTY ASSESSED VALUE AS A PERCENTAGE OF TOTAL ASSESSED VALUE, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

YEAR	CIP PERCENTAGE
2001	11.4%
2002	11.0%
2003	11.1%
2004	10.2%
2005	9.6%



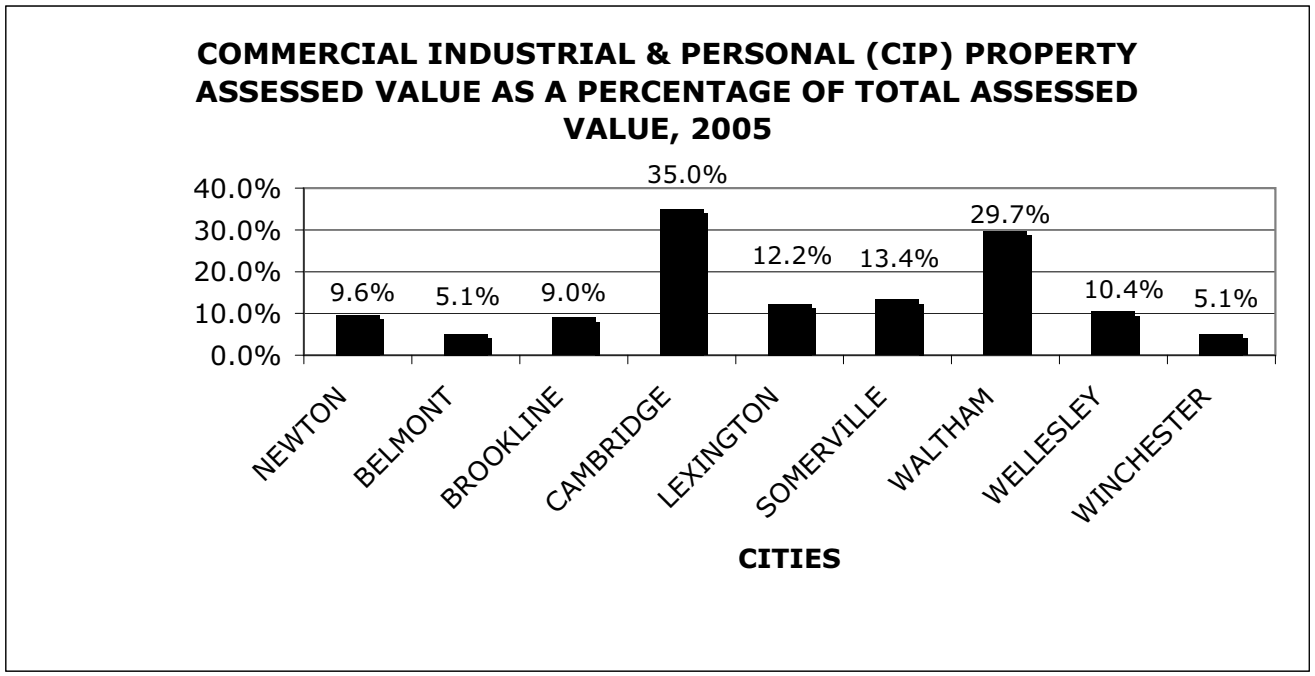
NOTES:

1. CIP is Percentage of (Commercial +Industrial+Personal Property)/(Total Assessed Value)

COMMERCIAL INDUSTRIAL & PERSONAL (CIP) PROPERTY ASSESSED VALUE AS A PERCENTAGE OF TOTAL ASSESSED VALUE, 2005

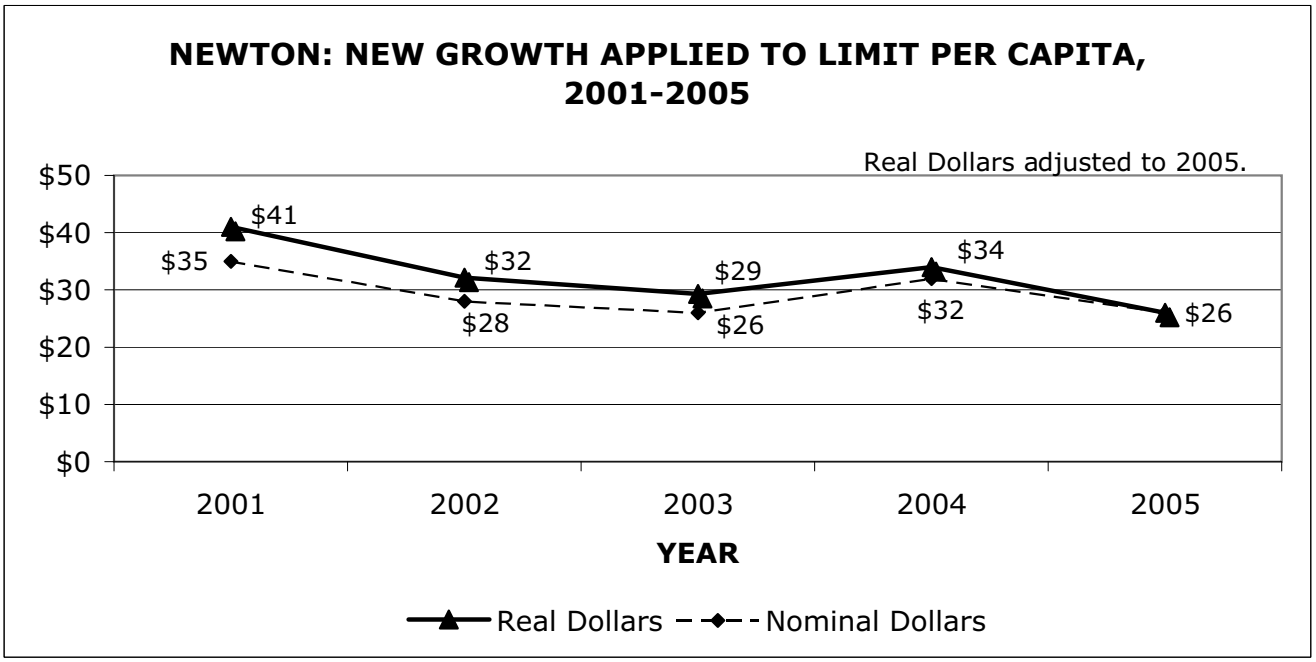
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/asva0006.xls

MUNICIPALITY	PERCENTAGE
NEWTON	9.6%
BELMONT	5.1%
BROOKLINE	9.0%
CAMBRIDGE	35.0%
LEXINGTON	12.2%
SOMERVILLE	13.4%
WALTHAM	29.7%
WELLESLEY	10.4%
WINCHESTER	5.1%



NEWTON: NEW GROWTH APPLIED TO LIMIT PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/Grow0006.xls

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$3,461,198	$2,931,316	83,927	$41	$35
2002	$2,690,884	$2,335,800	83,686	$32	$28
2003	$2,470,166	$2,231,188	84,323	$29	$26
2004	$2,887,574	$2,720,067	83,802	$34	$32
2005	$2,152,049	$2,152,049	83,158	$26	$26



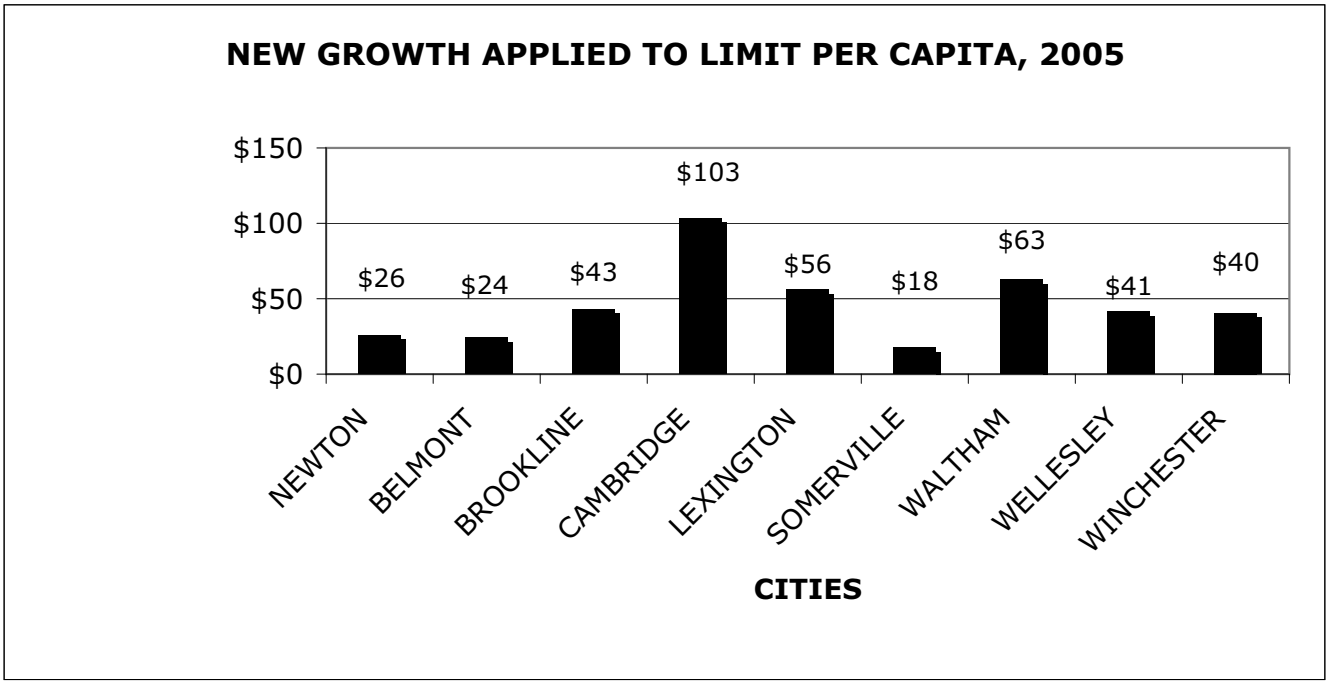
NOTES:

1. New Growth is the additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit.

NEW GROWTH APPLIED TO LIMIT PER CAPITA, 2005

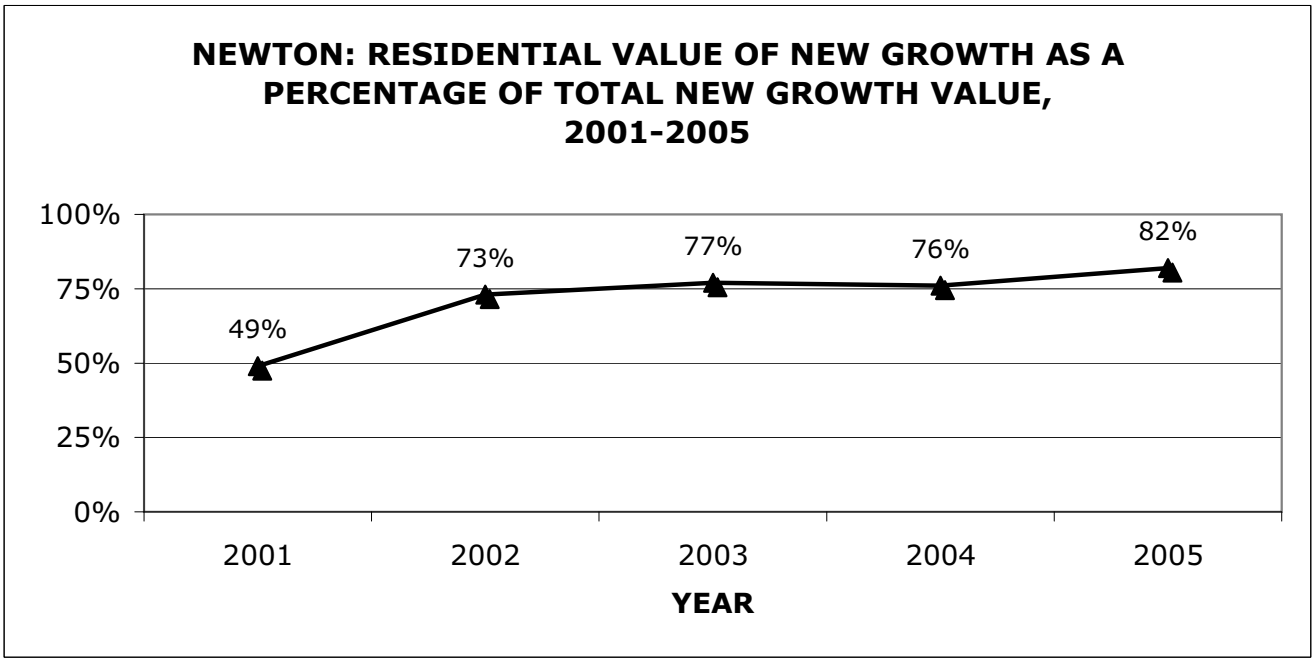
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/Grow0006.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$2,152,049	83,158	$26
BELMONT	$564,989	23,371	$24
BROOKLINE	$2,386,251	55,590	$43
CAMBRIDGE	$10,350,865	100,135	$103
LEXINGTON	$1,692,120	30,266	$56
SOMERVILLE	$1,314,465	74,963	$18
WALTHAM	$3,736,452	59,556	$63
WELLESLEY	$1,116,335	26,978	$41
WINCHESTER	$855,115	21,181	$40



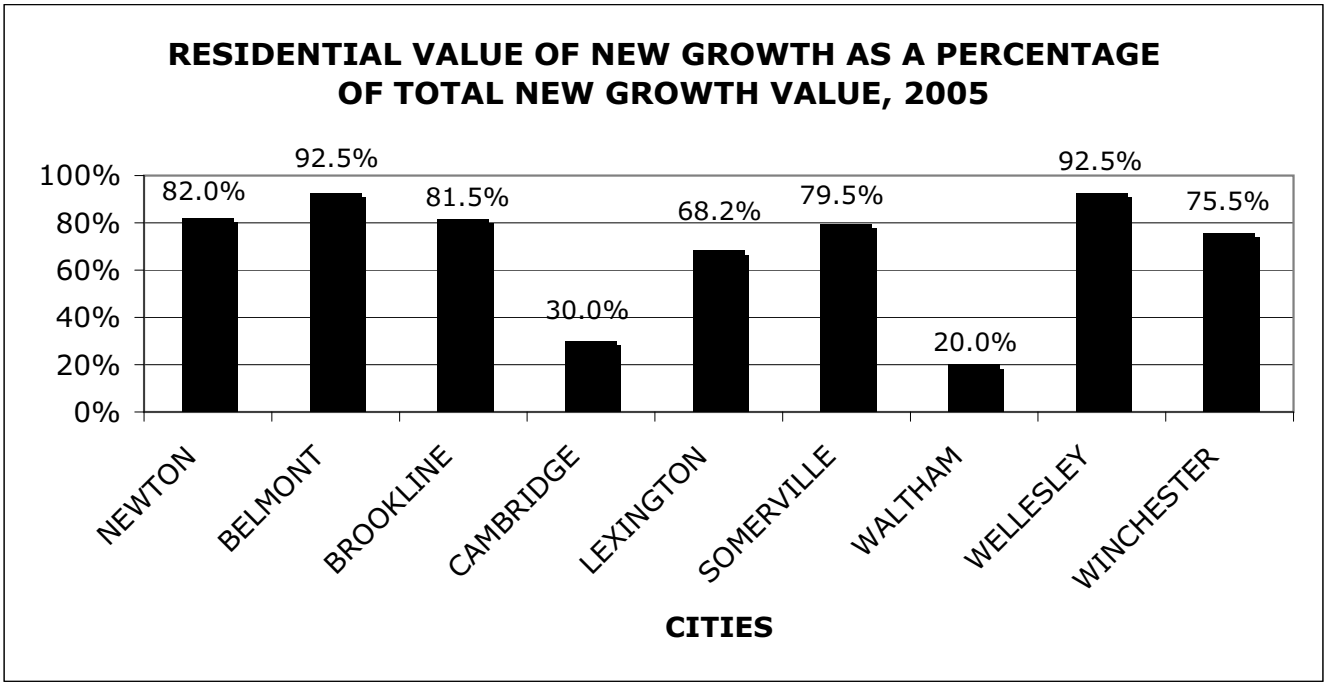
NEWTON: RESIDENTIAL VALUE OF NEW GROWTH
AS A PERCENTAGE OF TOTAL NEW GROWTH VALUE, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/Grow0006.xls

YEAR	PERCENTAGE
2001	49%
2002	73%
2003	77%
2004	76%
2005	82%



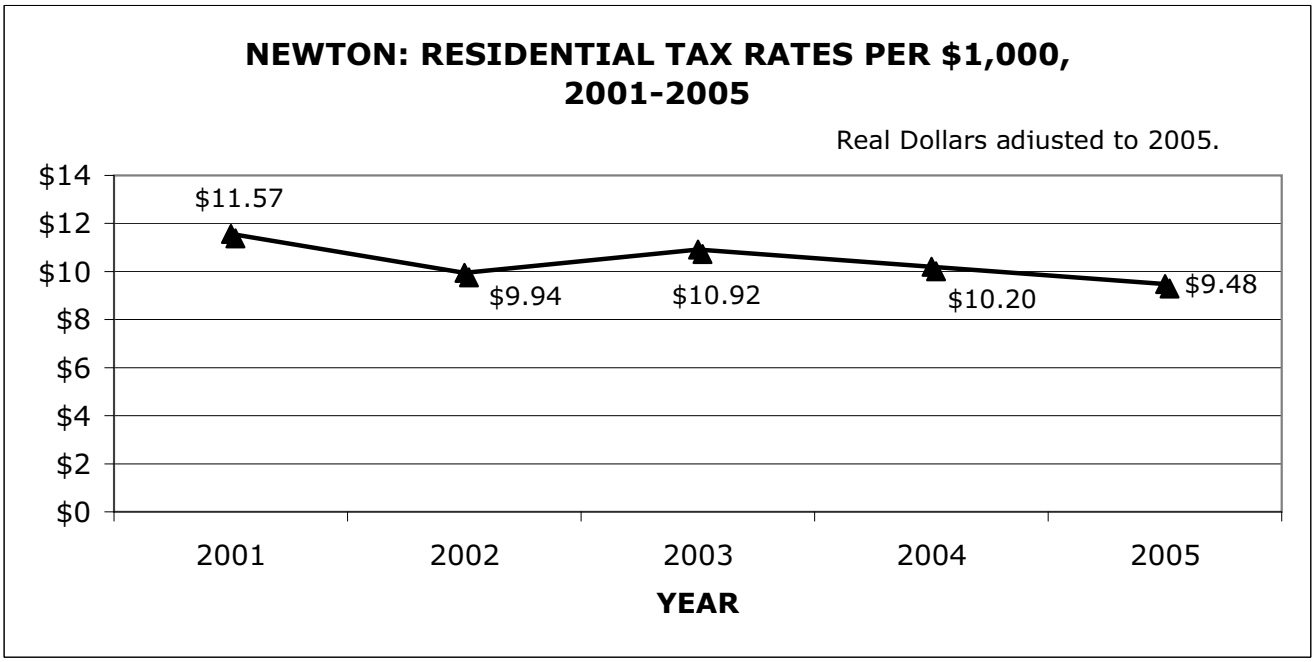
RESIDENTIAL VALUE OF NEW GROWTH AS A PERCENTAGE OF TOTAL NEW GROWTH VALUE
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/Prop2_LevyCap_RefVotes/Grow0006.xls

MUNICIPALITY	PERCENTAGE
NEWTON	82.0%
BELMONT	92.5%
BROOKLINE	81.5%
CAMBRIDGE	30.0%
LEXINGTON	68.2%
SOMERVILLE	79.5%
WALTHAM	20.0%
WELLESLEY	92.5%
WINCHESTER	75.5%



NEWTON: RESIDENTIAL TAX RATES PER $1,000, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

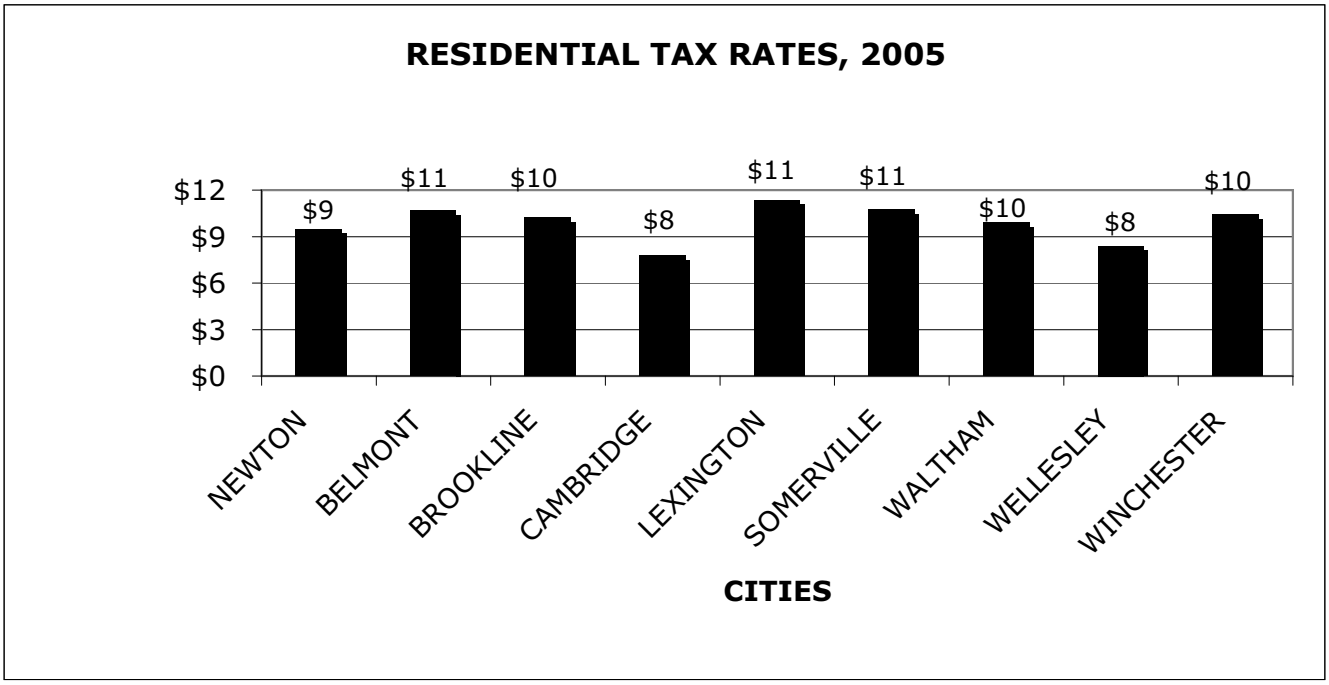
YEAR	TAX RATE AMOUNT
2001	$11.57
2002	$9.94
2003	$10.92
2004	$10.20
2005	$9.48



NOTES:
Ratio of property tax divided by a unit of the associated municipal tax base. A tax rate can be expressed as $10.80 per $1,000 of assessed valuation for taxable real and personal property. The state approved local tax rate for a property class is the authorized levy for the class divided by the certified valuation. The Tax Rate Recapitulation form and supporting documentation contains proposed tax rates for a municipality and approval of this form means approval of the proposed tax rates.

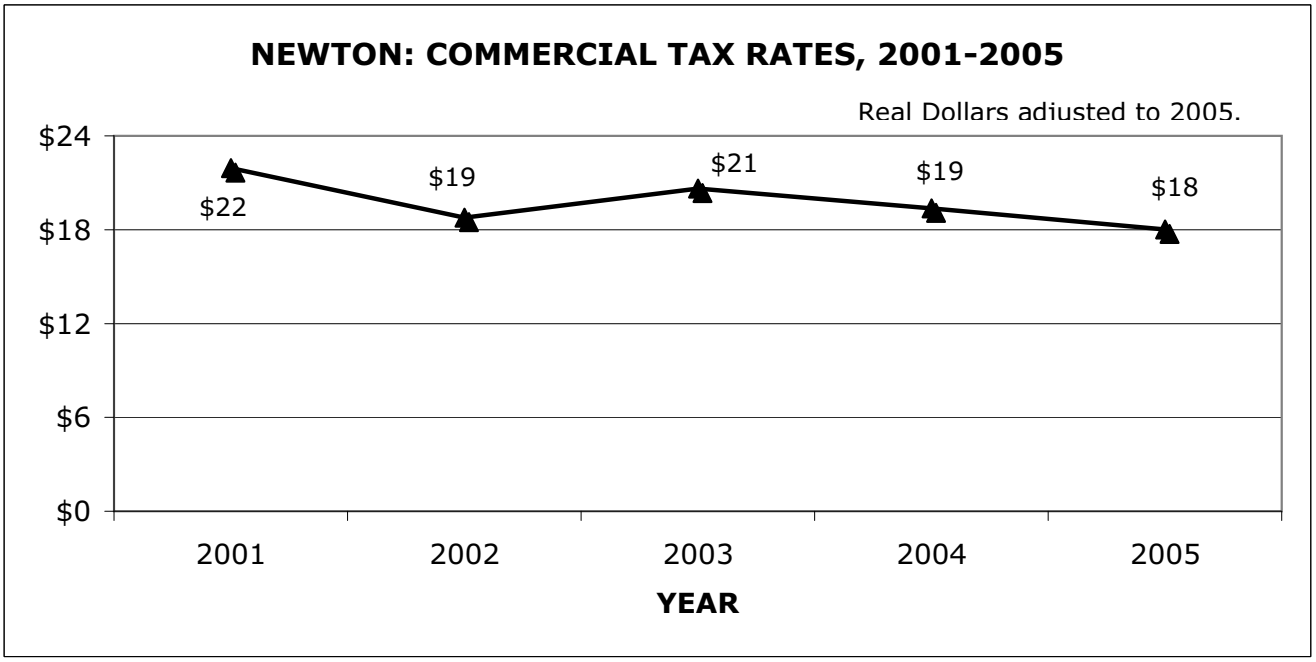
RESIDENTIAL TAX RATES PER $1,000 IN PROPERTY VALUE, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

MUNICIPALITY	AMOUNT
NEWTON	$9.48
BELMONT	$10.69
BROOKLINE	$10.23
CAMBRIDGE	$7.78
LEXINGTON	$11.34
SOMERVILLE	$10.75
WALTHAM	$9.89
WELLESLEY	$8.40
WINCHESTER	$10.42



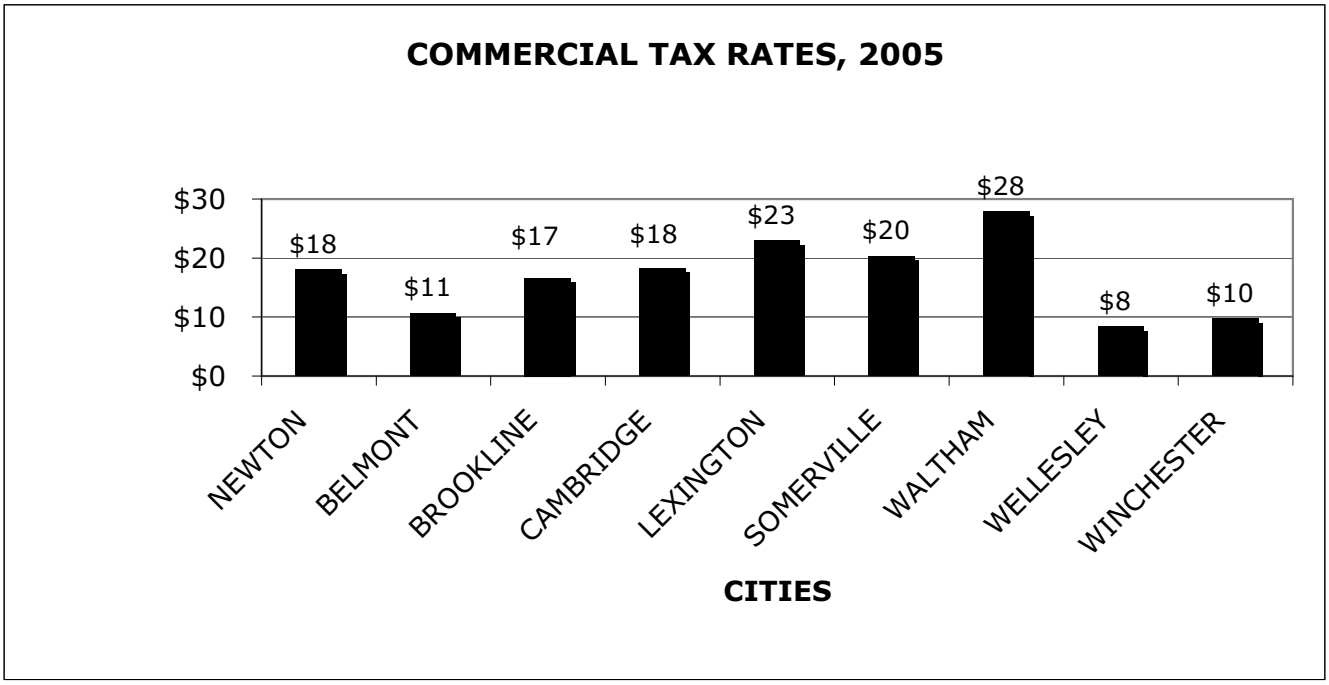
NEWTON: COMMERCIAL TAX RATES, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

YEAR	AMOUNT
2001	$21.93
2002	$18.77
2003	$20.63
2004	$19.37
2005	$18.02



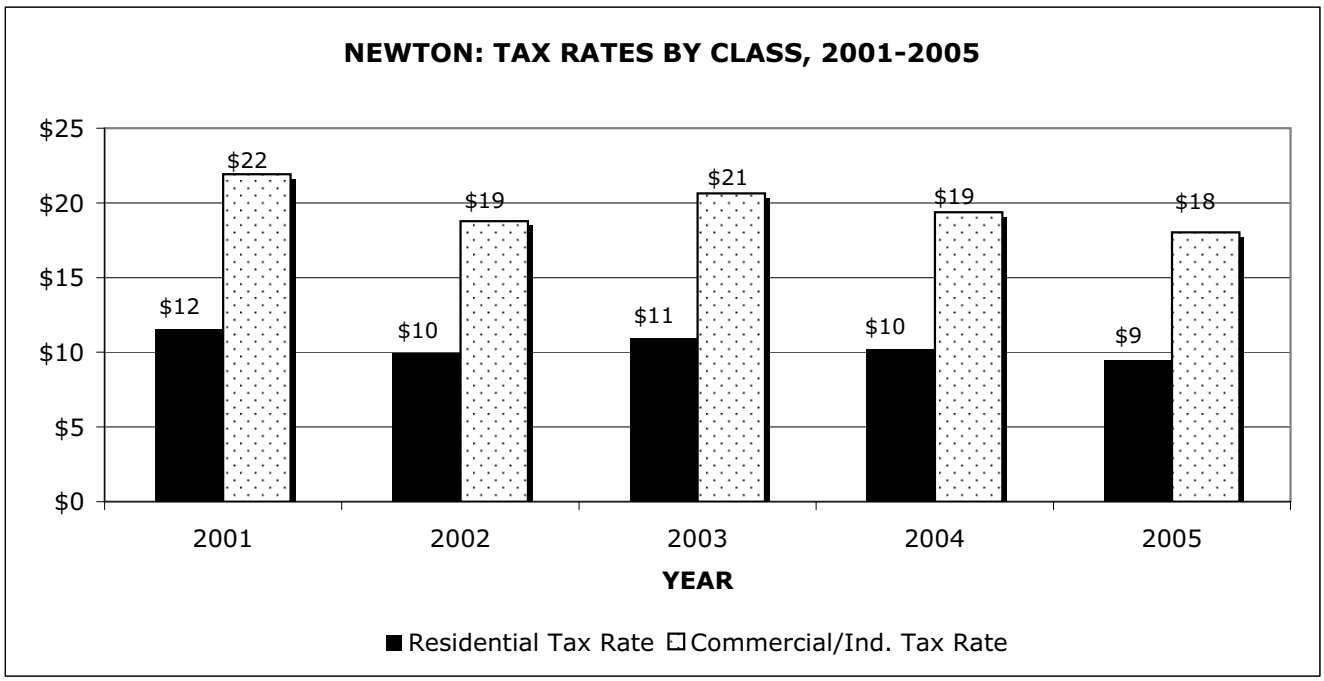
COMMERCIAL TAX RATES PER $1,000, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

MUNICIPALITY	AMOUNT
NEWTON	$18.02
BELMONT	$10.69
BROOKLINE	$16.61
CAMBRIDGE	$18.28
LEXINGTON	$22.96
SOMERVILLE	$20.29
WALTHAM	$27.87
WELLESLEY	$8.40
WINCHESTER	$9.76



NEWTON: TAX RATES BY CLASS, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

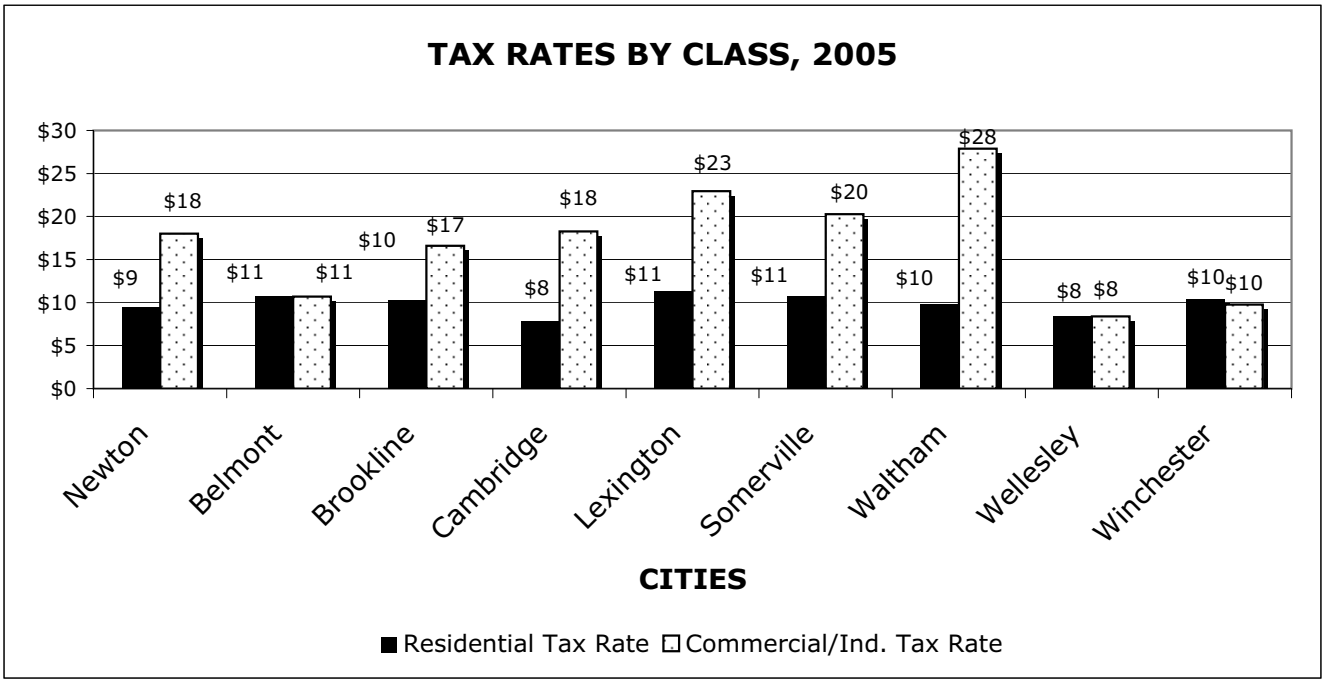
YEAR	RESIDENTIAL TAX RATE	COMMERCIAL/ IND. TAX RATE
2001	$11.57	$21.93
2002	$9.94	$18.77
2003	$10.92	$20.63
2004	$10.20	$19.37
2005	$9.48	$18.02



TAX RATES BY CLASS, 2005

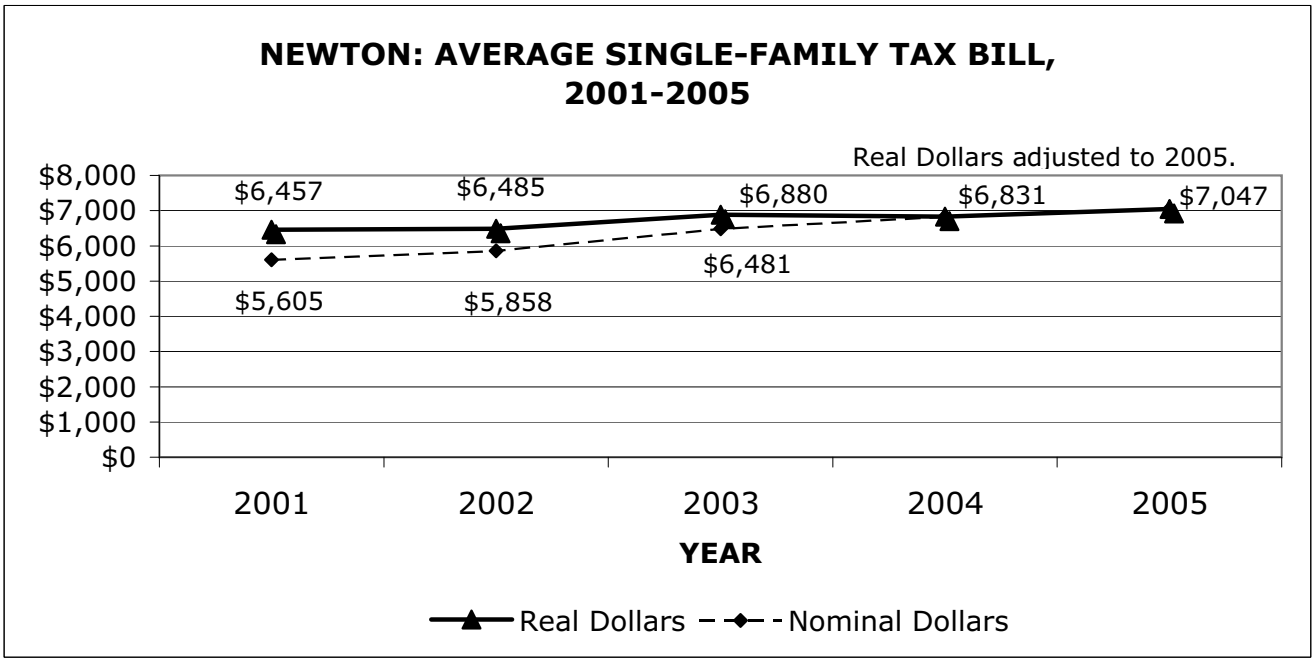
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/Txrt0006.xls

MUNICIPALITY	RESIDENTIAL TAX RATES	COMMERCIAL/ IND. TAX RATE
Newton	$9.48	$18.02
Belmont	$10.69	$10.69
Brookline	$10.23	$16.61
Cambridge	$7.78	$18.28
Lexington	$11.34	$22.96
Somerville	$10.75	$20.29
Waltham	$9.89	$27.87
Wellesley	$8.40	$8.40
Winchester	$10.42	$9.76



NEWTON: AVERAGE SINGLE-FAMILY TAX BILL, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/bill0006.xls

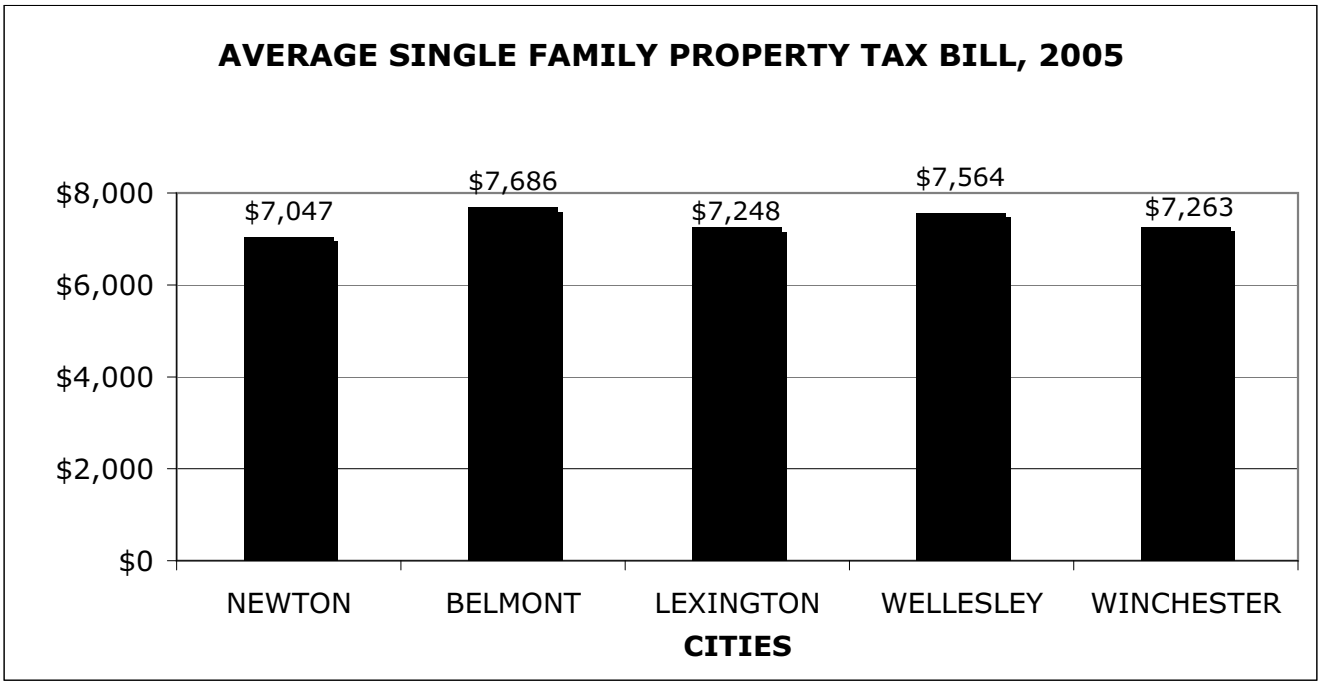
YEAR	REAL AMOUNT	TAX RATE	REAL $ AVERAGE	NOMINAL $ AVERAGE
2001	$484,481	$11.57	$6,457	$5,605
2002	$589,336	$9.94	$6,485	$5,858
2003	$593,537	$10.92	$6,880	$6,481
2004	$669,688	$10.20	$6,831	$6,831
2005	$743,345	$9.48	$7,047	$7,047



NOTES:
1. Average single family tax bills are calculated by dividing the single family assessed value by the single family parcels for each community and then multiplying the average value by the residential tax rate and dividing by one thousand.

AVERAGE SINGLE-FAMILY PROPERTY TAX BILL, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/PropertyTax/bill0006.xls

MUNICIPALITY	AMOUNT	TAX RATE	AVERAGE
NEWTON	$743,345	$9.48	$7,047
BELMONT	$718,971	$10.69	$7,686
LEXINGTON	$639,120	$11.34	$7,248
WELLESLEY	$900,444	$8.40	$7,564
WINCHESTER	$697,016	$10.42	$7,263

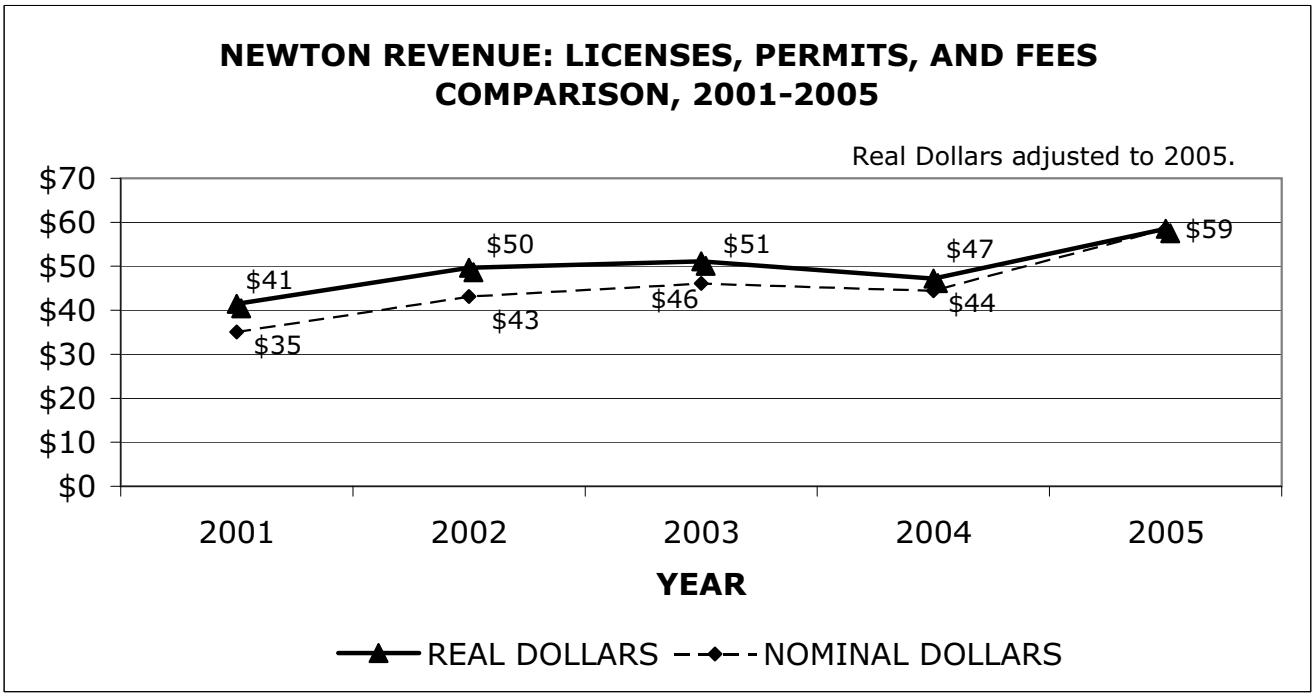


NOTES:

1. The state does not report figures for average single family tax bill for Cambridge, Somerville, Brookline and Waltham because these four communities have adopted the residential exemption.

NEWTON: LICENSES, PERMITS, AND FEES COMPARISON, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundRevenues0005.xls

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$3,478,180	$2,945,699	83,927	$41	$35
2002	$4,155,923	$3,607,516	83,686	$50	$43
2003	$4,307,738	$3,890,984	84,323	$51	$46
2004	$3,956,511	$3,726,996	83,802	$47	$44
2005	$4,867,719	$4,867,719	83,158	$59	$59

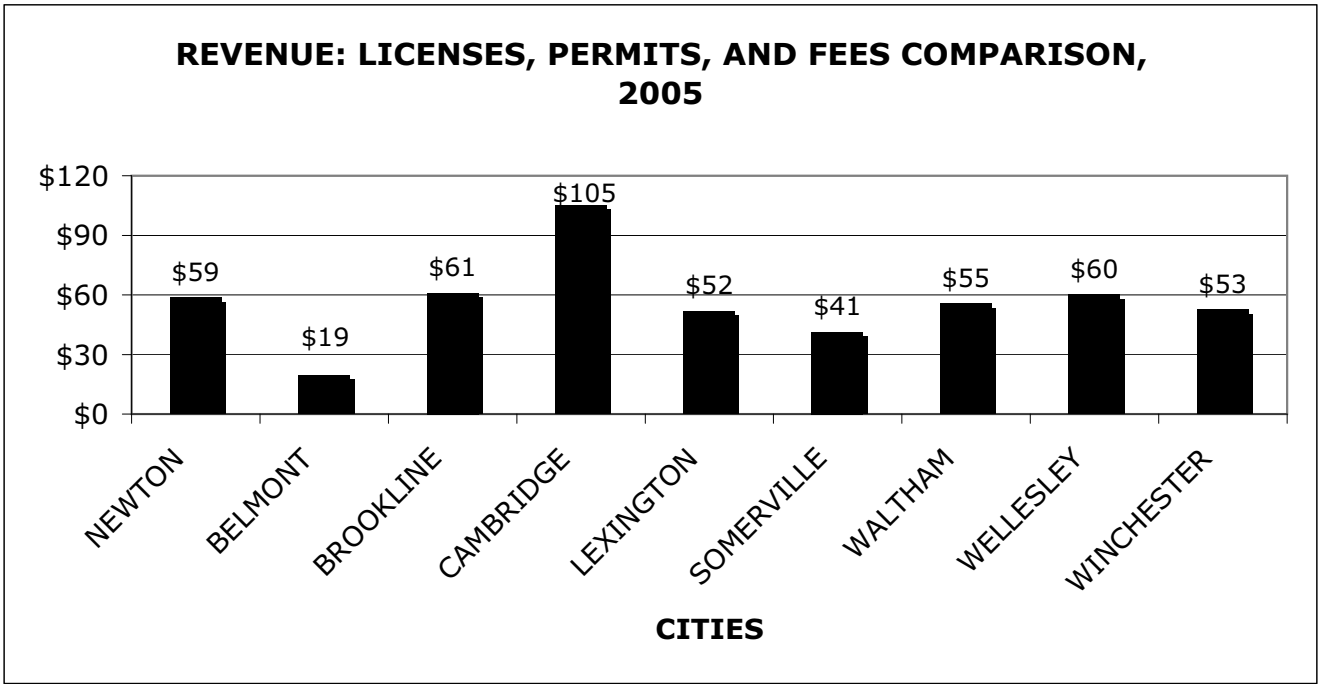


NOTES:
1. Includes Fees retained from tax collections and licenses and permits.

REVENUE: LICENSES, PERMITS, AND FEES COMPARISON, 2005

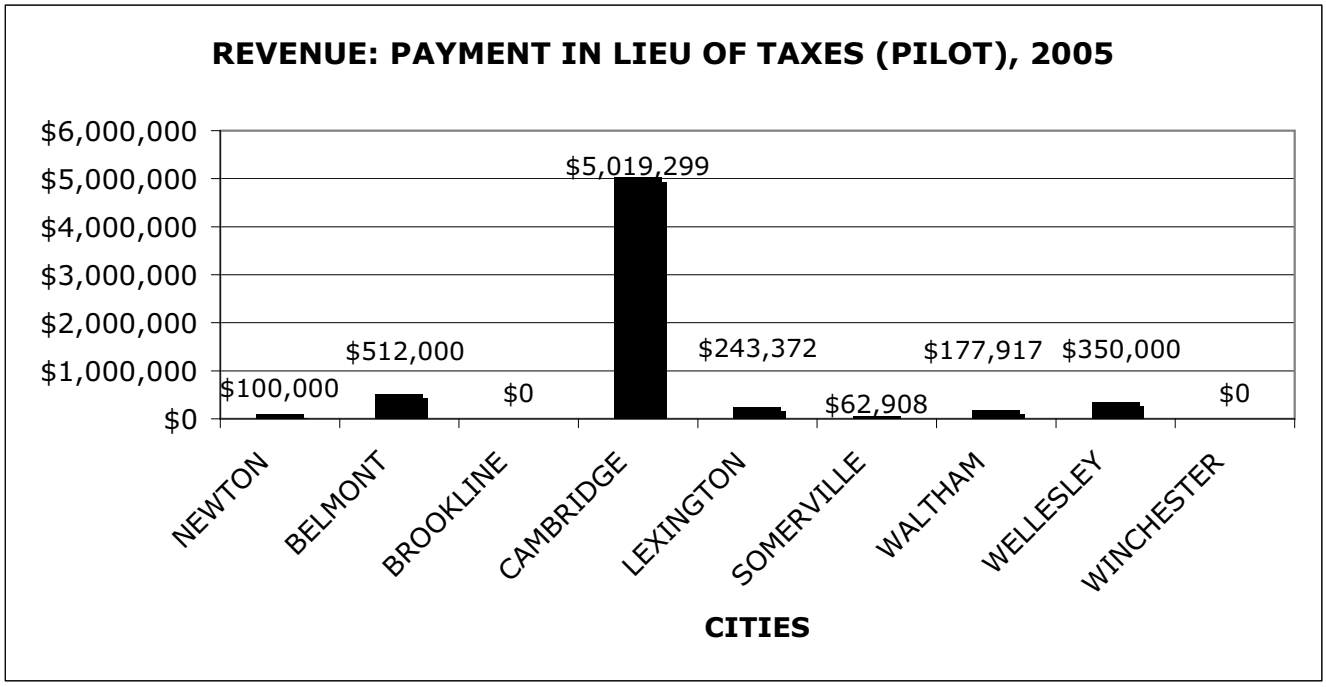
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundRevenues0005.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$4,867,719	83,158	$59
BELMONT	$454,645	23,371	$19
BROOKLINE	$3,386,847	55,590	$61
CAMBRIDGE	$10,520,351	100,135	$105
LEXINGTON	$1,565,913	30,266	$52
SOMERVILLE	$3,103,605	74,963	$41
WALTHAM	$3,303,883	59,556	$55
WELLESLEY	$1,617,239	26,978	$60
WINCHESTER	$1,112,427	21,181	$53



REVENUE: PAYMENT IN LIEU OF TAXES (PILOT) COMPARISON, 2005
Sources: Municipal Interviews/2005 Financial Statements

MUNICIPALITY	TOTAL AMOUNT
NEWTON	$100,000
BELMONT	$512,000
BROOKLINE	$0
CAMBRIDGE	$5,019,299
LEXINGTON	$243,372
SOMERVILLE	$62,908
WALTHAM	$177,917
WELLESLEY	$350,000
WINCHESTER	$0



SOURCES OF PILOT REVENUE:
1. Newton: Boston College.
2. Belmont: MacLean Hospital; Belmont Country Day School; Belmont Hill School; Housing Authority. MacLean Hospital is in the process of developing surplus property for private residential use, and has negotiated a reduction in its PILOT payment as the taxable uses phase it.
3. Cambridge: Harvard University; Massachusetts Institute of Technology
4. Lexington: Brookline Assisted Living; Town of Arlington; City of Cambridge; Eagles; Mason; does not receive any PILOT from MIT for Lincoln Labs.
5. Somerville: Tufts University; Other Non-Profits
6. Waltham: Brandeis does not offer PILOT but does offer a few scholarships for residents.
Figure for Waltham does not include state PILOT, which is shown in the appendix for state aid.
7. Wellesley: Wellesley College; Babson College; Massachusetts Bay Colony; Babson also offer municipal employees extra classes & degree programs.

REVENUE NOTES

Newton's net state aid is relatively low because the formula takes into consideration the property valuation, and Newton has 2nd highest property value in the state.

Increasing the amount of commercial and industrial development in Somerville is one of the city's top priorities. Recently, the city has been adding about $2 million per year in new growth (both residential and commercial), and it hopes to increase that with the Assembly Square Development. The planned extension of the MBTA Green Line to Union Square should help spur commercial and industrial development, as will "upzoning" by the city to encourage higher developments (more stories for buildings).

New condominium development has been the primary driver of new property tax growth in Somerville. Somerville is hoping to attract commercial and industrial development. The city has used Tax Increment Financing to promote development in distressed areas.

Cambridge's recent growth in its property tax base comes primarily from two sources: the growing biotech industry and condominium development.

Belmont and Wellesley have a single tax rate. Newton, Cambridge, Lexington, Somerville and Waltham have split tax rates with a higher rate for Commercial and Industrial Property. Winchester has a split tax rate with higher rate for residential property.

Brookline, Cambridge, Somerville and Waltham have adopted the 20% residential exemption for owner-occupied single-family homes.

Waltham attempts to keep residential property taxes as low as possible, and consisently adopts the maximum tax shift to commercial/industrial property, as well as the owner-occupied single family exemption. As a result, the average tax bill for owner-occupied single family homes in Waltham in 2005 was $2,923, which is much lower than most of the other communities in the sample.

Waltham has a $2.6 billion commercial/industrial tax base, and is the third most highly-valued business center in the state. Most of the value is in corporate headquarters and other office park type redevelopment going on downtown. Waltham also has a significant number of hotels, which generated $1.7 million in revenues from the room tax in FY 06.

Winchester is one of few Massachusetts municipalities to have chosen to shift the burden of debt servicing costs onto residents, which has tended to increase the effective tax rate for its residents, and this might explain some of the differences with the other municipalities.

Cambridge's license and fee revenues come primarily from building permits.

Building permits constitute about half of Somerville's revenues from licenses, permits and fees. Other sources include, but are not limited to inspections and trash transfers.

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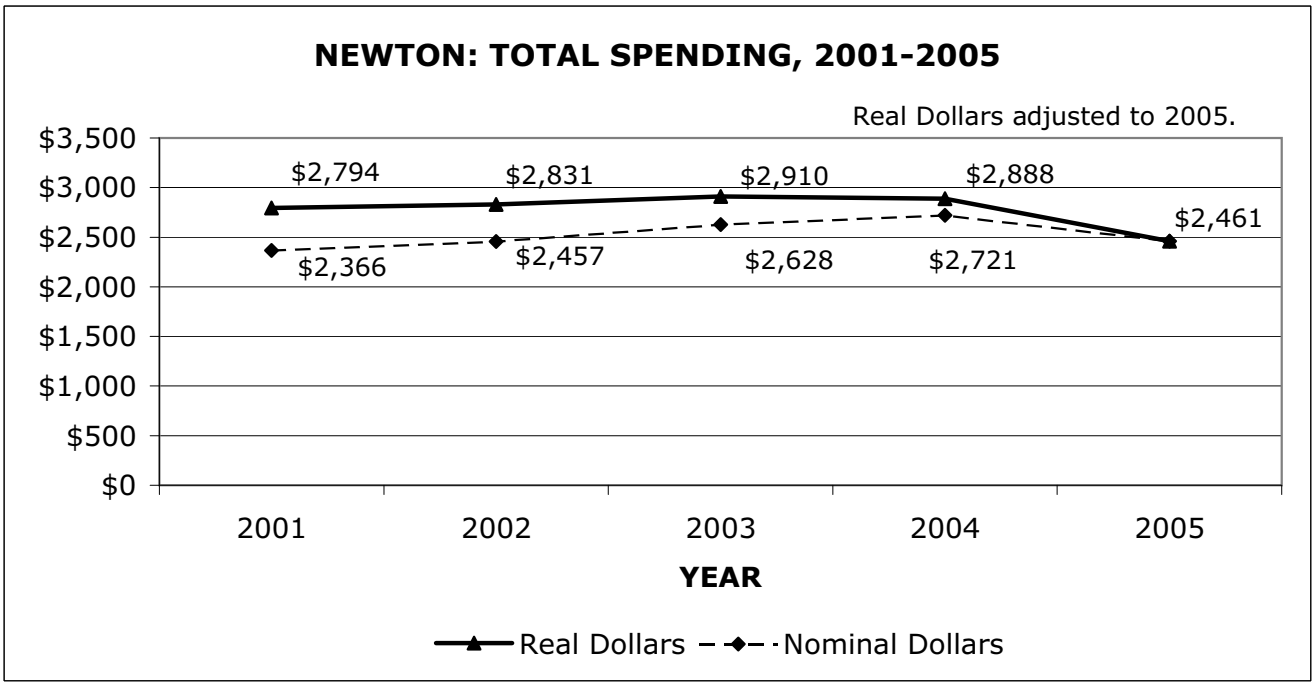
EXPENDITURES

NEWTON: TOTAL SPENDING PER CAPITA, 2001-2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$234,498,291	$198,598,505	83,927	$2,794	$2,366
2002	$236,914,316	$205,651,605	83,686	$2,831	$2,457
2003	$245,338,010	$221,602,659	84,323	$2,910	$2,628
2004	$242,056,374	$228,014,822	83,802	$2,888	$2,721
2005	$204,669,718	$204,669,718	83,158	$2,461	$2,461



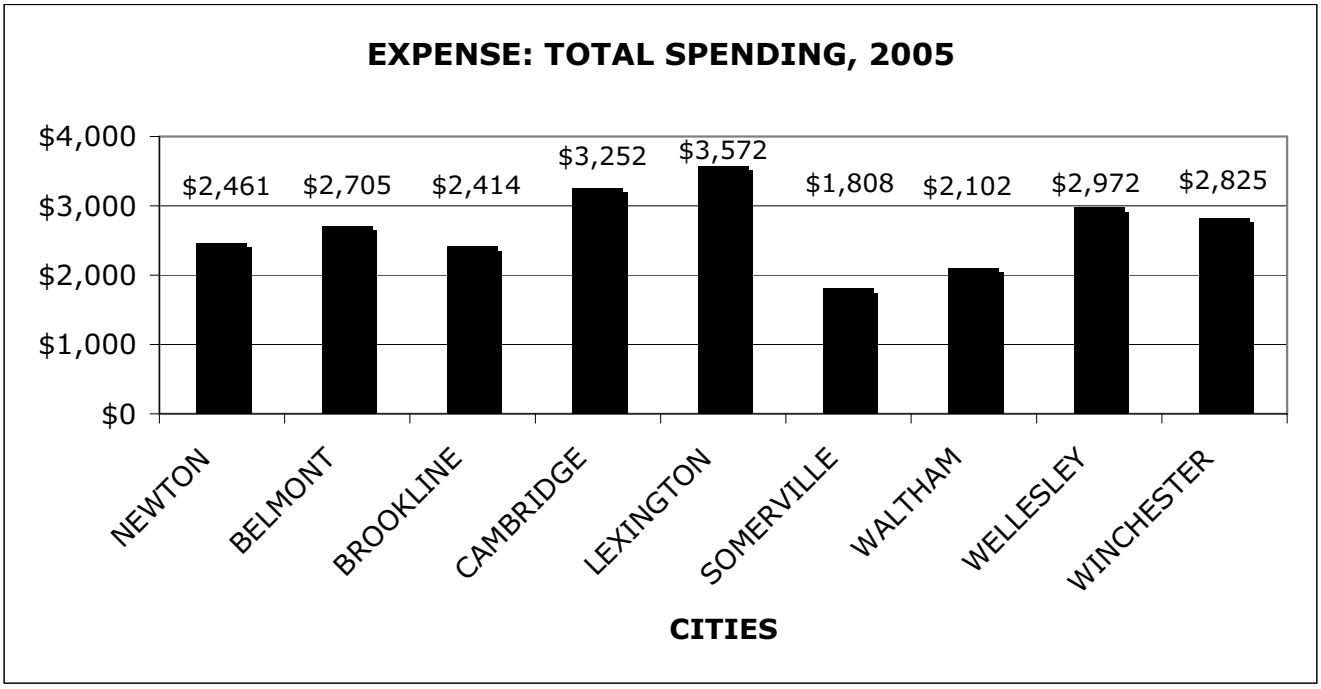
NOTES:

1. General Fund Expenditure data are gathered and obtained through the Schedule A that is submitted to the Division of Local Services by Local Government Officials. Expenditures are from the general fund and do not reflect spending from special revenue, enterprise, capital projects or trust funds. This may result in wide variations among communities in the "Public Works" category, because many communities account for spending on sewer, water, utilities and other public works functions in enterprise or special revenue funds.
2. Capital outlay and construction expenditures are also excluded in order to encourage fair comparisons. Intergovernmental transfers within departmental budgets, such as regional school assessments, are reported within their respective functions (i.e. education) and not in the "intergovernmental" column.

EXPENSE: TOTAL SPENDING PER CAPITA, 2005

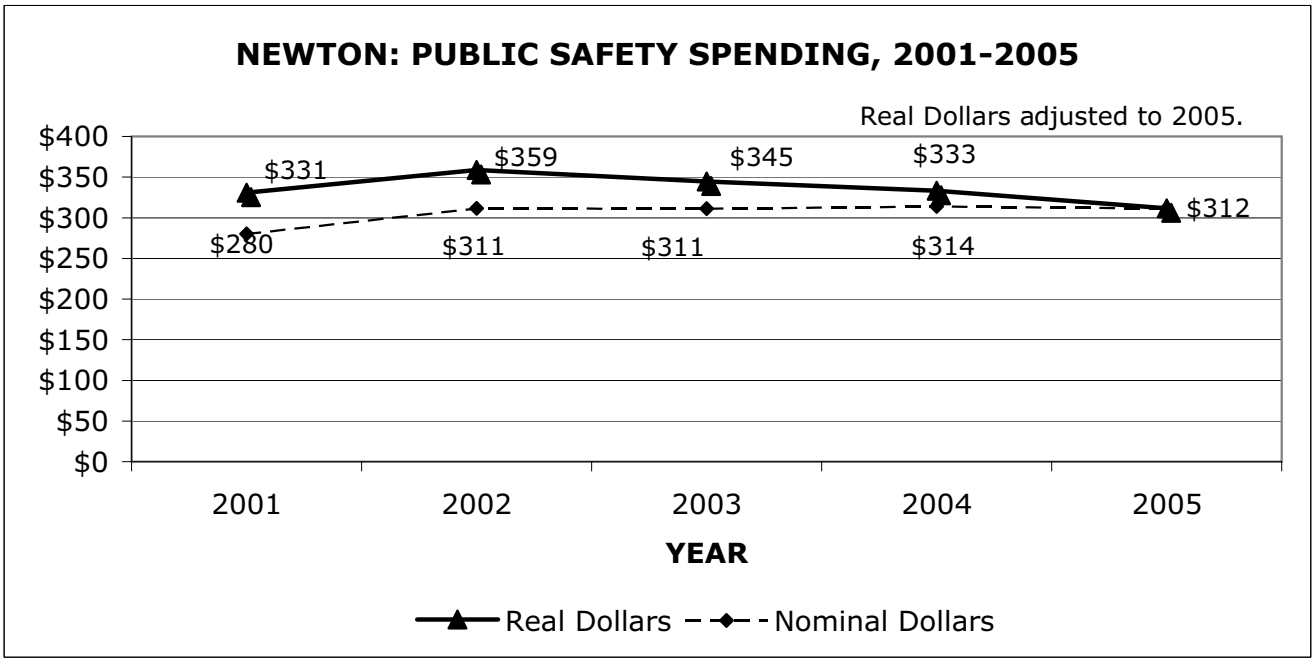
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

MUNICIPALITY	TOTAL SPENDING	POPULATION	PER CAPITA
NEWTON	$204,669,718	83,158	$2,461
BELMONT	$63,227,527	23,371	$2,705
BROOKLINE	$134,217,977	55,590	$2,414
CAMBRIDGE	$325,686,601	100,135	$3,252
LEXINGTON	$108,108,575	30,266	$3,572
SOMERVILLE	$135,543,797	74,963	$1,808
WALTHAM	$125,198,002	59,556	$2,102
WELLESLEY	$80,188,332	26,978	$2,972
WINCHESTER	$59,832,861	21,181	$2,825



NEWTON: PUBLIC SAFETY SPENDING PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

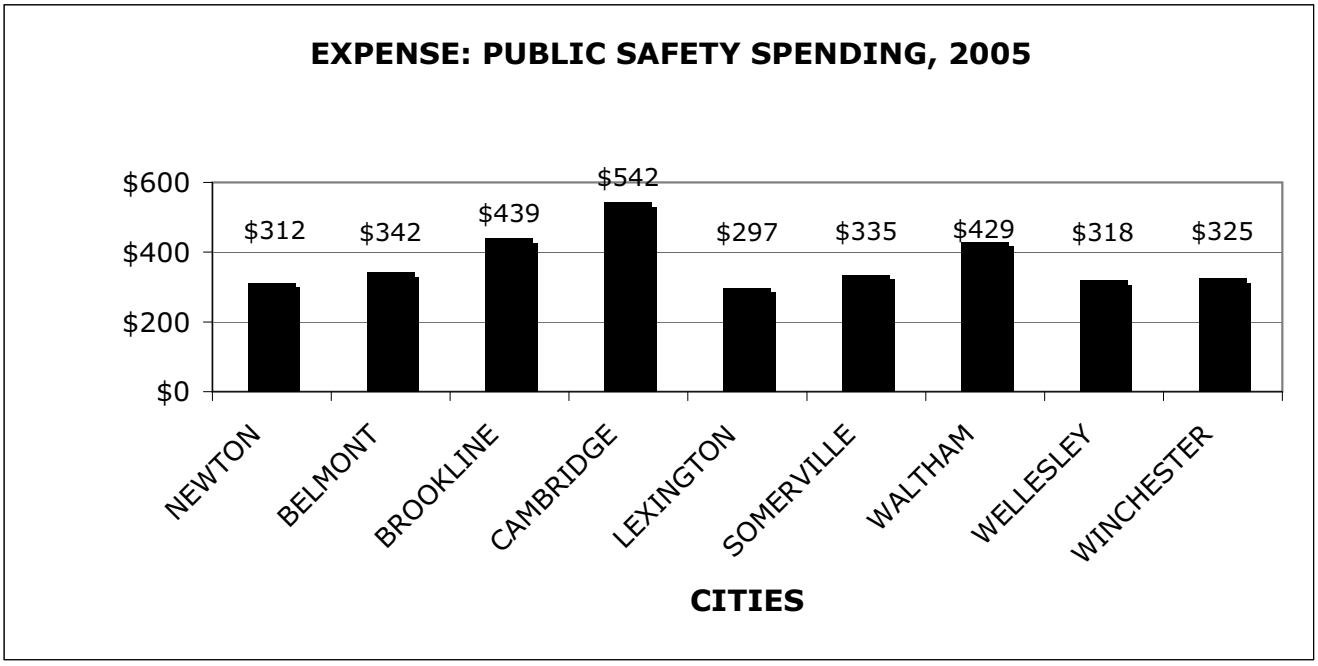
YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$27,773,276	$23,521,413	83,927	$331	$280
2002	$30,024,732	$26,062,732	83,686	$359	$311
2003	$29,065,849	$26,253,859	84,323	$345	$311
2004	$27,936,975	$26,316,367	83,802	$333	$314
2005	$25,916,867	$25,916,867	83,158	$312	$312



COMMENTS/OBSERVATIONS:
1. Public Safety comprises of three categories: Police, Fire, and Other Public Safety. Police and Fire constitute the major portion of this expenditure.

EXPENSE: PUBLIC SAFETY SPENDING PER CAPITA, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

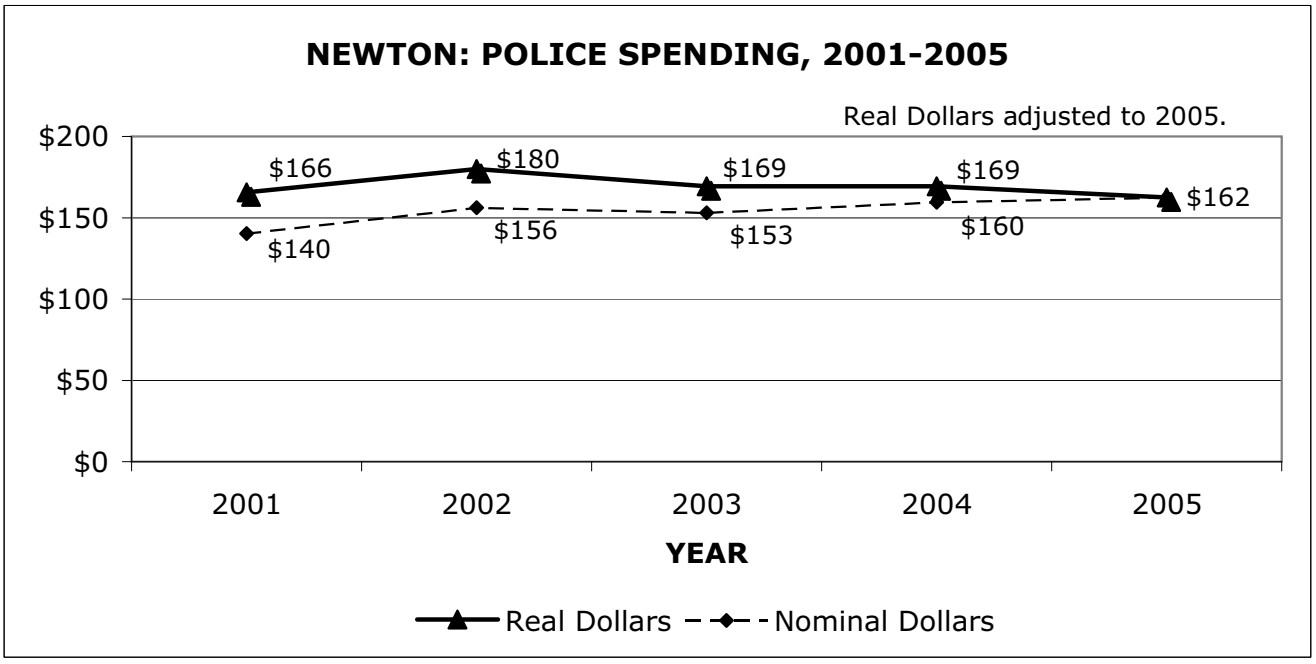
MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$25,916,867	83,158	$312
BELMONT	$7,983,698	23,371	$342
BROOKLINE	$24,415,655	55,590	$439
CAMBRIDGE	$54,315,562	100,135	$542
LEXINGTON	$8,990,490	30,266	$297
SOMERVILLE	$25,089,001	74,963	$335
WALTHAM	$25,537,121	59,556	$429
WELLESLEY	$8,592,106	26,978	$318
WINCHESTER	$6,892,433	21,181	$325



NEWTON: POLICE SPENDING PER CAPITA, 2001-2005

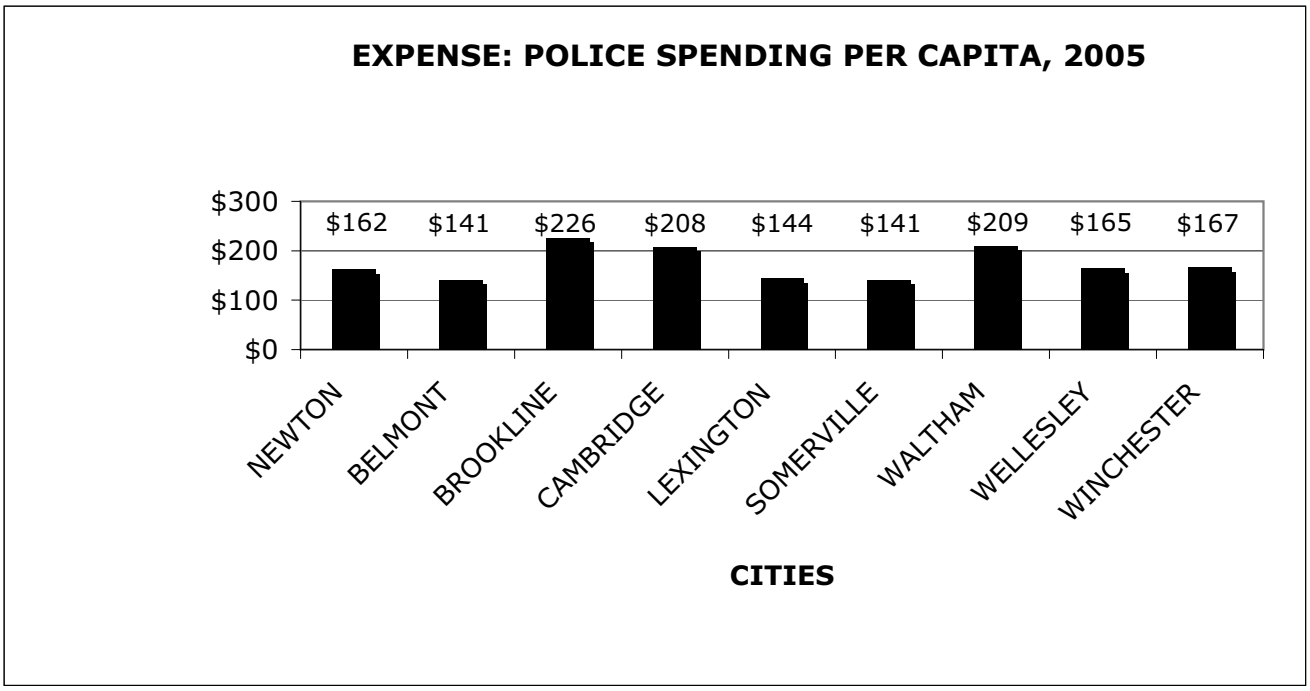
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$13,899,495	$11,771,595	83,927	$166	$140
2002	$15,053,210	$13,066,820	83,686	$180	$156
2003	$14,287,198	$12,904,976	84,323	$169	$153
2004	$14,193,960	$13,370,576	83,802	$169	$160
2005	$13,511,385	$13,511,385	83,158	$162	$162



EXPENSE: POLICE SPENDING PER CAPITA, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

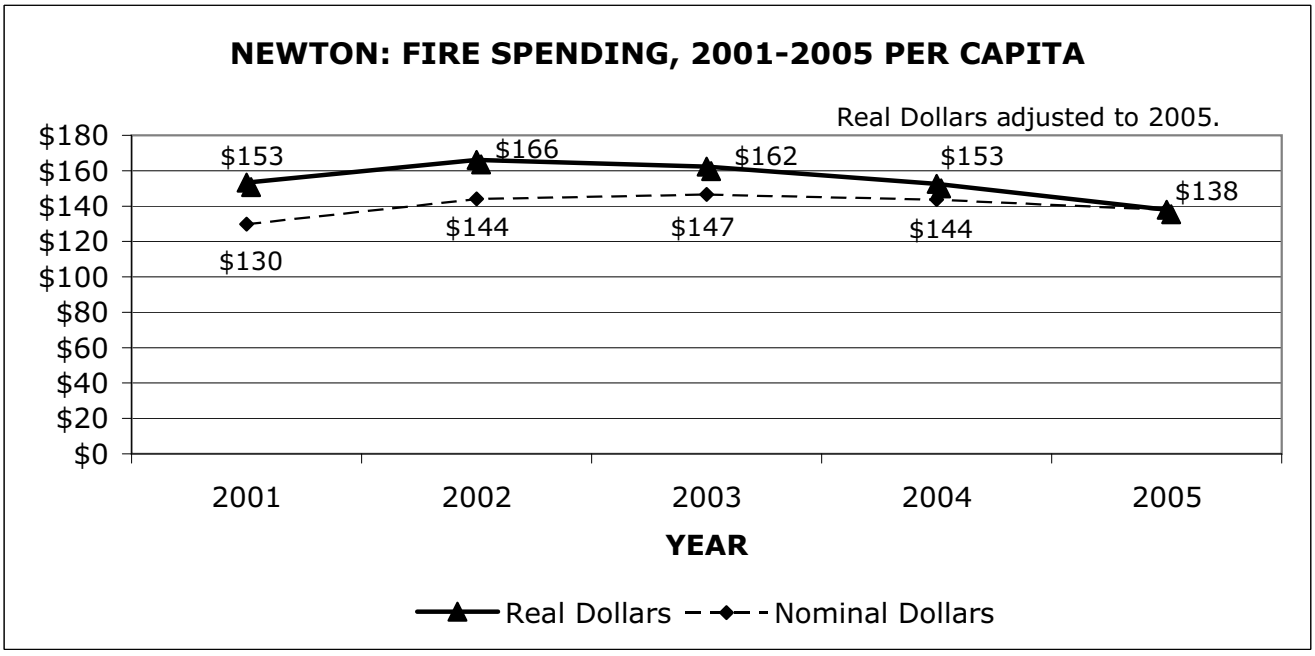
MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$13,511,385	83,158	$162
BELMONT	$3,303,920	23,371	$141
BROOKLINE	$12,571,578	55,590	$226
CAMBRIDGE	$20,813,197	100,135	$208
LEXINGTON	$4,362,633	30,266	$144
SOMERVILLE	$10,566,331	74,963	$141
WALTHAM	$12,461,351	59,556	$209
WELLESLEY	$4,447,088	26,978	$165
WINCHESTER	$3,527,950	21,181	$167



NEWTON: FIRE SPENDING PER CAPITA, 2001-2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

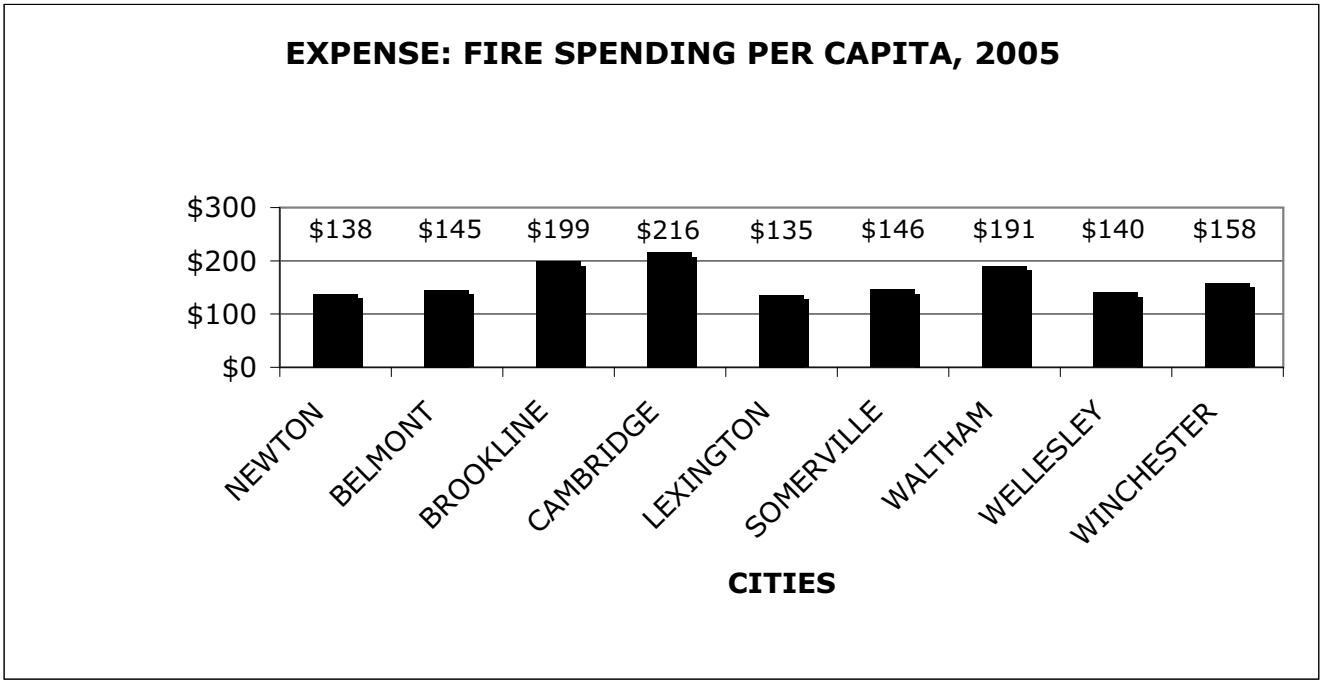
YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$12,869,616	$10,899,382	83,927	$153	$130
2002	$13,896,550	$12,062,791	83,686	$166	$144
2003	$13,691,974	$12,367,337	84,323	$162	$147
2004	$12,791,721	$12,049,681	83,802	$153	$144
2005	$11,477,736	$11,477,736	83,158	$138	$138



EXPENSE: FIRE SPENDING PER CAPITA, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

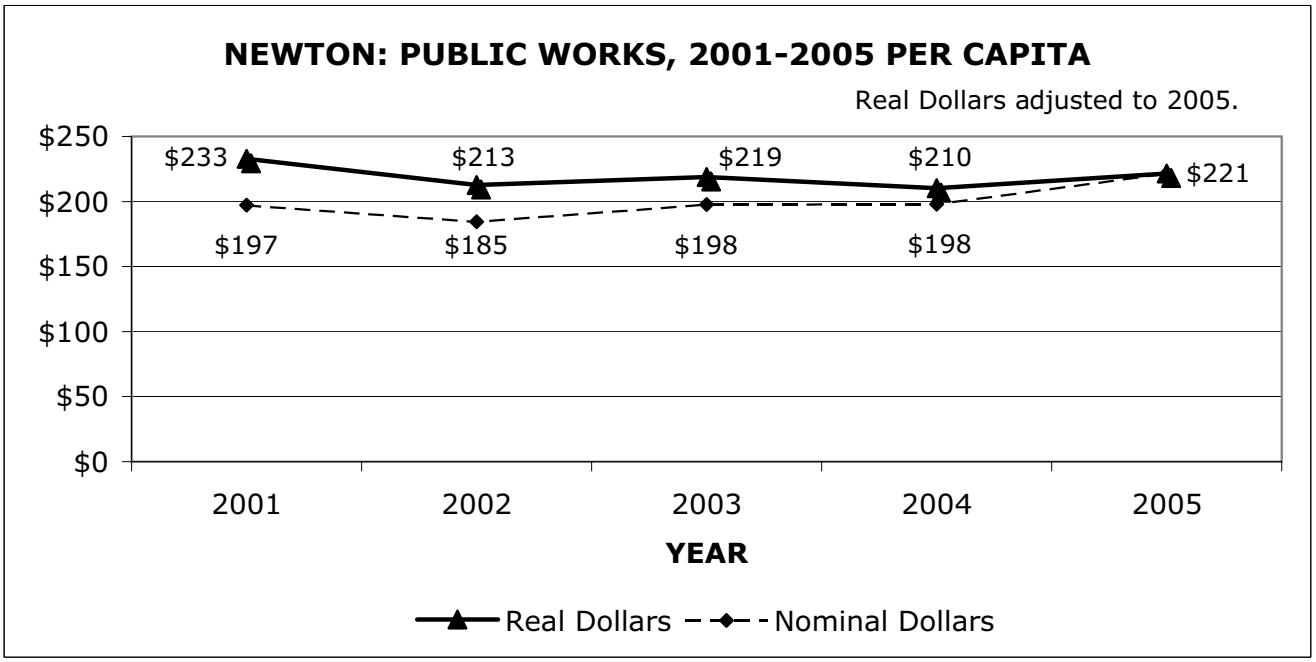
MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$11,477,736	83,158	$138
BELMONT	$3,390,378	23,371	$145
BROOKLINE	$11,085,897	55,590	$199
CAMBRIDGE	$21,620,045	100,135	$216
LEXINGTON	$4,097,118	30,266	$135
SOMERVILLE	$10,979,476	74,963	$146
WALTHAM	$11,365,643	59,556	$191
WELLESLEY	$3,781,545	26,978	$140
WINCHESTER	$3,356,002	21,181	$158



NEWTON: PUBLIC WORKS SPENDING PER CAPITA, 2001-2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$19,542,396	$16,550,614	83,927	$233	$197
2002	$17,791,751	$15,443,989	83,686	$213	$185
2003	$18,444,748	$16,660,301	84,323	$219	$198
2004	$17,613,277	$16,591,541	83,802	$210	$198
2005	$18,416,497	$18,416,497	83,158	$221	$221



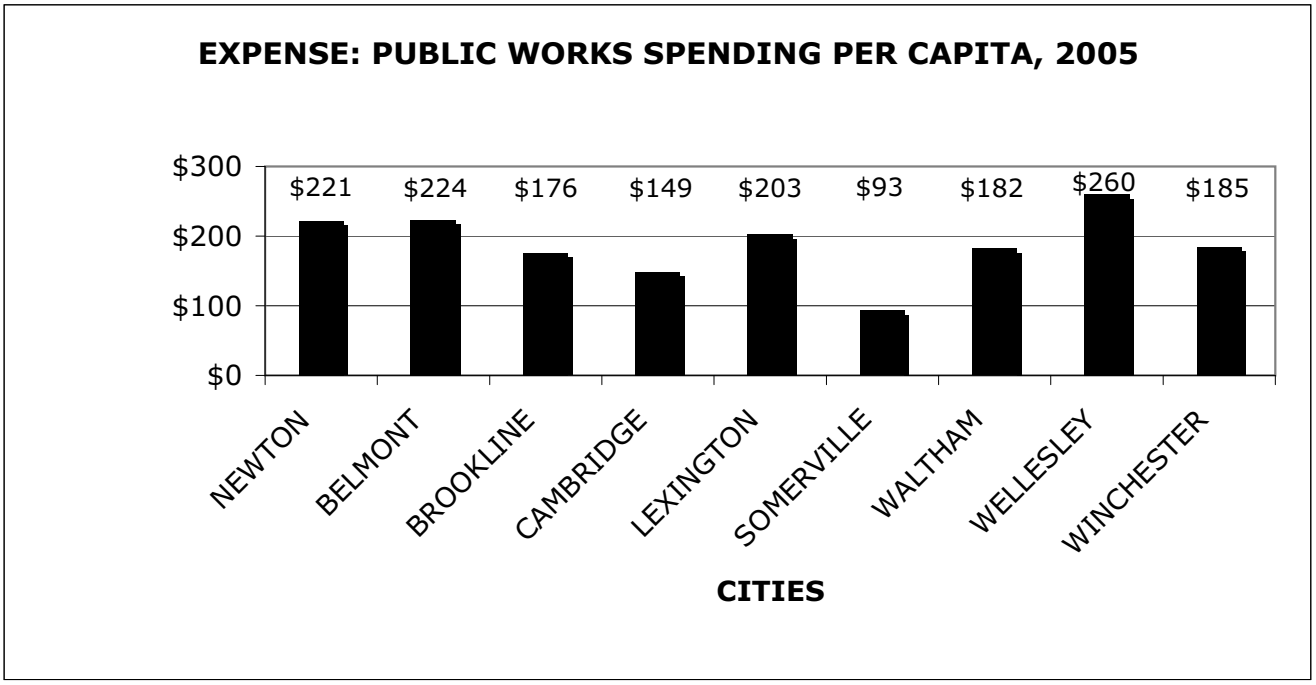
NOTES:

1. Public Works Spending includes Highways/Streets Snow & Ice, Highway/Streets Other, Waste Collection & Disposal, Sewerage Collection & Disposal, Water Distribution, Parking Garage, Street Lighting and Other.

EXPENSE: PUBLIC WORKS SPENDING PER CAPITA, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$18,416,497	83,158	$221
BELMONT	$5,225,012	23,371	$224
BROOKLINE	$9,761,517	55,590	$176
CAMBRIDGE	$14,897,684	100,135	$149
LEXINGTON	$6,133,683	30,266	$203
SOMERVILLE	$6,986,197	74,963	$93
WALTHAM	$10,836,106	59,556	$182
WELLESLEY	$7,013,628	26,978	$260
WINCHESTER	$3,918,584	21,181	$185



NOTES:

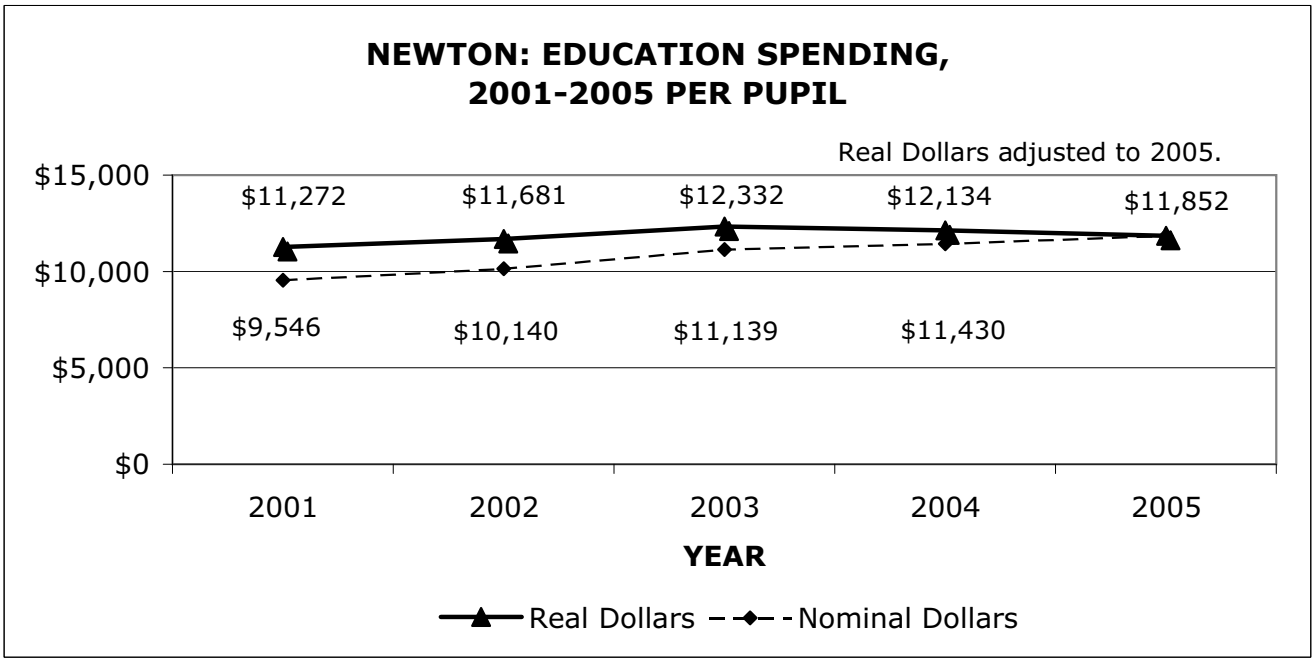
1. General Fund Expenditure data are gathered and obtained through the Schedule A that is submitted to the Division of Local Services by Local Government Officials. Expenditures are from the general fund and do not reflect spending from special revenue, enterprise, capital projects or trust funds. This may result in wide variations among communities in the "Public Works" category, because many but not all communities account for spending on sewer, water, utilities and other public works functions in enterprise or special revenue funds.

COMMENTS/OBSERVATIONS:

1. Cambridge & Somerville spending appears relatively low compared to others and is likely a reporting issue. For example, Somerville has a separate water and sewer enterprise fund.

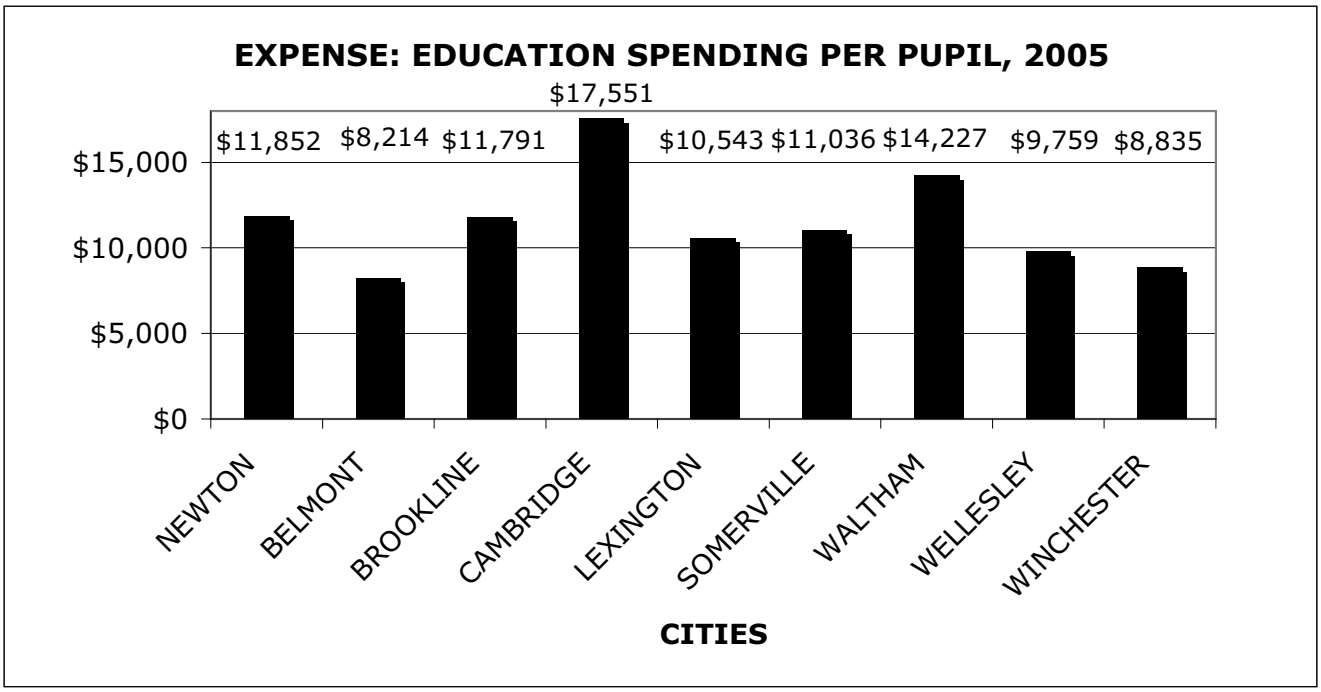
EXPENSE: EDUCATION SPENDING PER PUPIL, 2005
Sources: Massachusetts Department of Education, Office of School Finance
http://finance1.doe.mass.edu/statistics/pp05.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	PUPILS	REAL $ PER PUPIL	NOMINAL $ PER PUPIL
2001	$128,069,441	$108,463,049	11,362	$11,272	$9,546
2002	$131,215,741	$113,900,790	11,233	$11,681	$10,140
2003	$139,171,285	$125,707,088	11,285	$12,332	$11,139
2004	$136,882,779	$128,942,287	11,281	$12,134	$11,430
2005	$134,856,052	$134,856,052	11,378	$11,852	$11,852



EXPENSE: EDUCATION SPENDING PER PUPIL, 2005
Sources: Massachusetts Department of Education, Office of School Finance
http://finance1.doe.mass.edu/statistics/pp05.xls

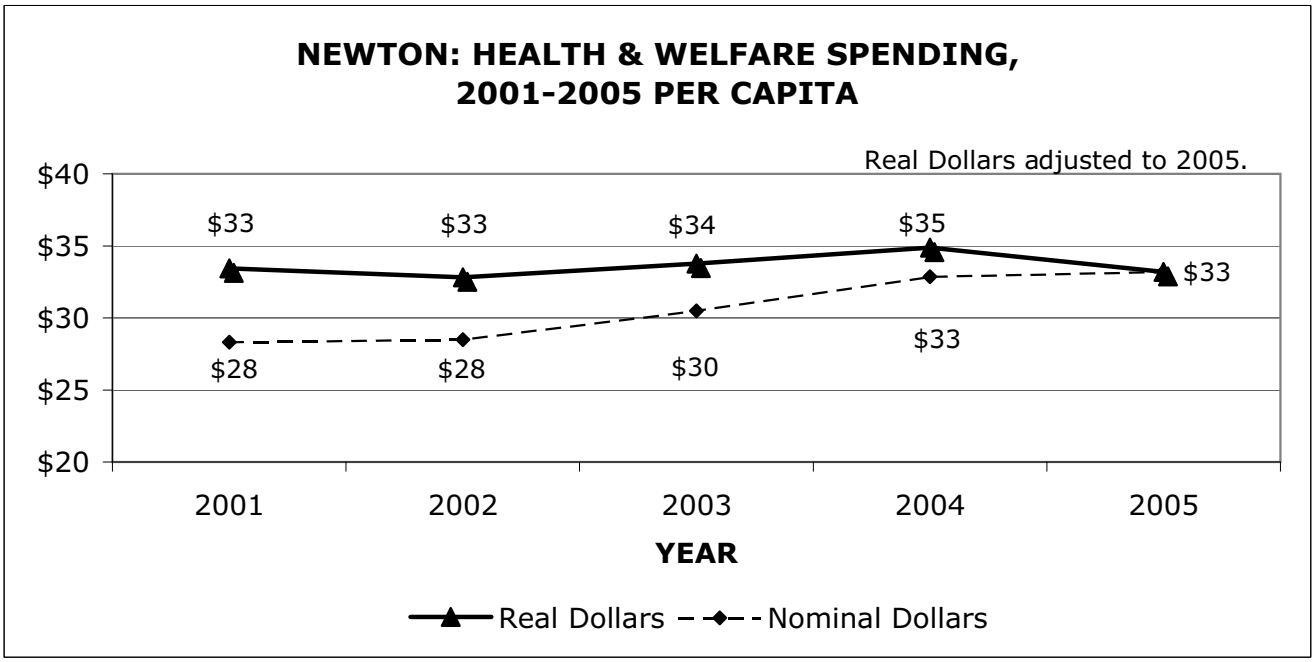
MUNICIPALITY	AMOUNT	PUPILS	PER PUPIL
NEWTON	$134,856,052	11,378	$11,852
BELMONT	$30,541,249	3,718	$8,214
BROOKLINE	$70,630,506	5,990	$11,791
CAMBRIDGE	$107,695,697	6,136	$17,551
LEXINGTON	$65,387,811	6,202	$10,543
SOMERVILLE	$59,417,830	5,384	$11,036
WALTHAM	$66,684,843	4,687	$14,227
WELLESLEY	$42,789,933	4,385	$9,759
WINCHESTER	$32,668,882	3,698	$8,835



NEWTON: HEALTH & WELFARE SPENDING PER CAPITA, 2001-2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$2,806,282	$2,376,663	83,927	$33	$28
2002	$2,746,549	$2,384,120	83,686	$33	$28
2003	$2,846,758	$2,571,347	84,323	$34	$30
2004	$2,922,532	$2,752,998	83,802	$35	$33
2005	$2,760,007	$2,760,007	83,158	$33	$33



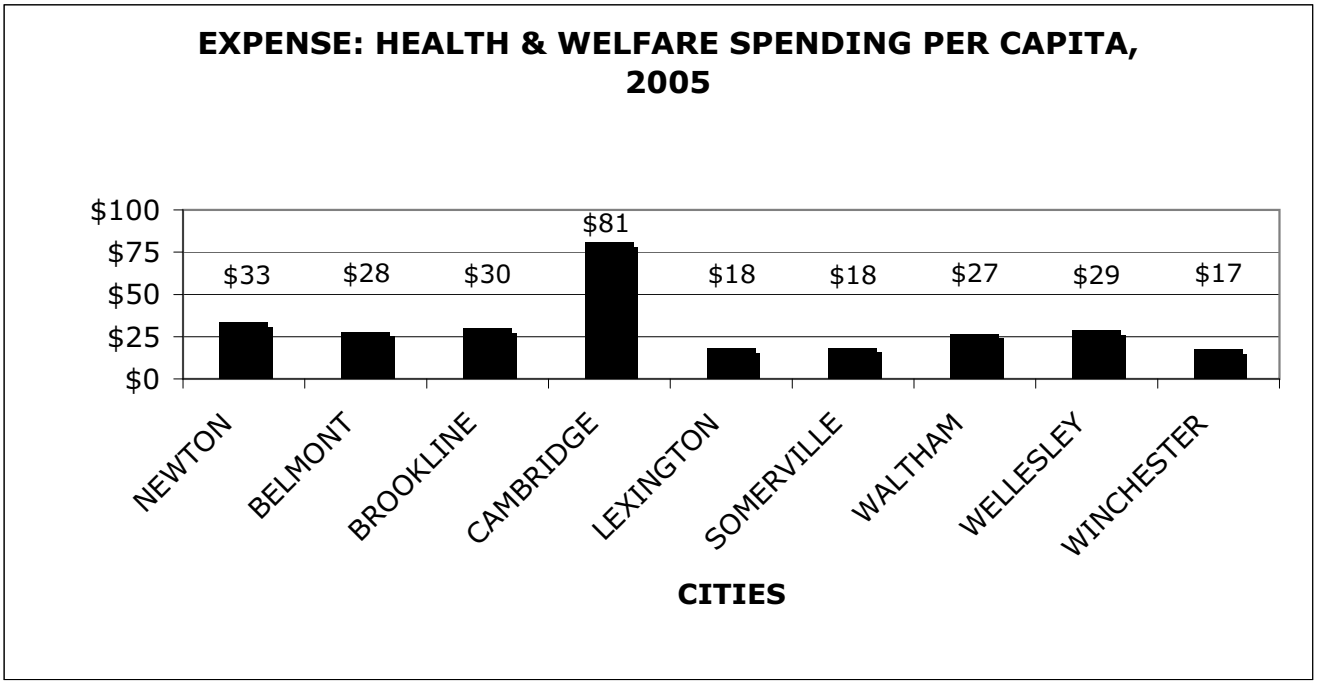
NOTES:

1. Health and Welfare Spending includes Health Services, Clinical Services, Special Programs, Veteran's Services and Other.

EXPENSE: HEALTH AND WELFARE PER CAPITA, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$2,760,007	83,158	$33
BELMONT	$644,285	23,371	$28
BROOKLINE	$1,645,013	55,590	$30
CAMBRIDGE	$8,079,451	100,135	$81
LEXINGTON	$539,078	30,266	$18
SOMERVILLE	$1,377,604	74,963	$18
WALTHAM	$1,578,813	59,556	$27
WELLESLEY	$772,329	26,978	$29
WINCHESTER	$362,620	21,181	$17



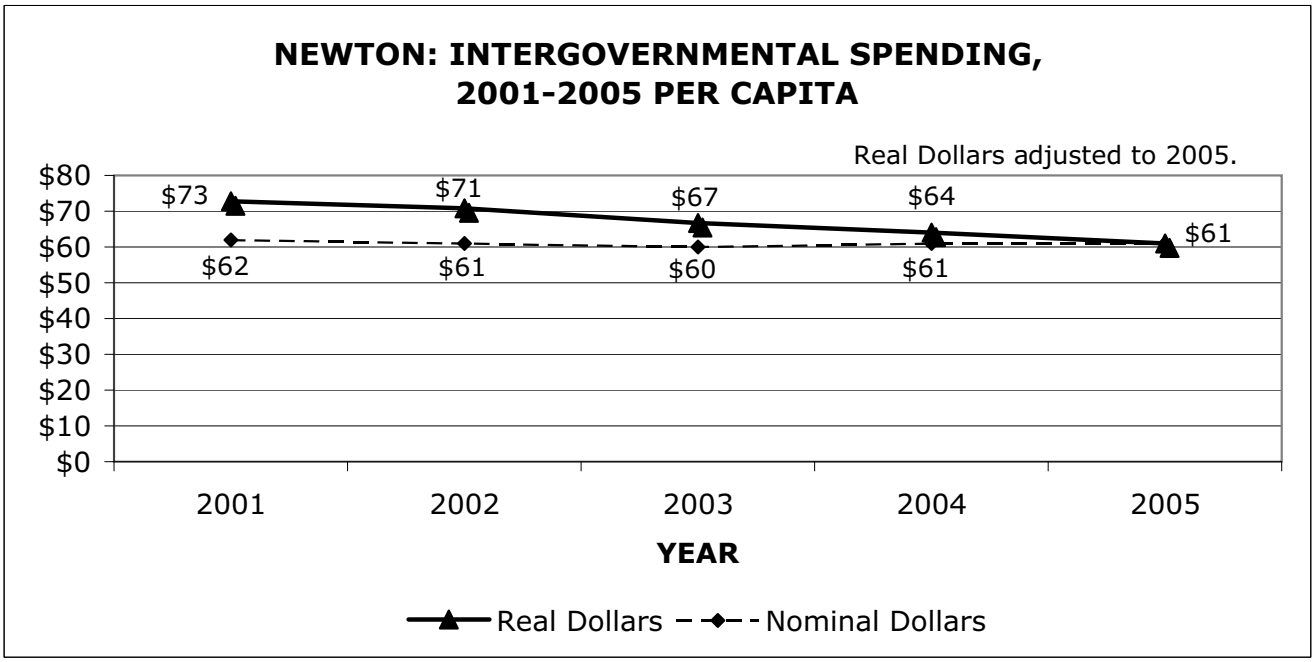
COMMENTS/OBSERVATIONS:

1. Cambridge's high health and welfare spending comes from a large contribution to a local hospital.

NEWTON: INTERGOVERNMENTAL SPENDING PER CAPITA, 2001-2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

YEAR	REAL SPENDING	NOMINAL SPENDING	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$6,109,586	$5,174,256	83,927	$73	$62
2002	$5,924,346	$5,142,581	83,686	$71	$61
2003	$5,625,683	$5,081,422	84,323	$67	$60
2004	$5,400,013	$5,086,760	83,802	$64	$61
2005	$5,045,783	$5,045,783	83,158	$61	$61

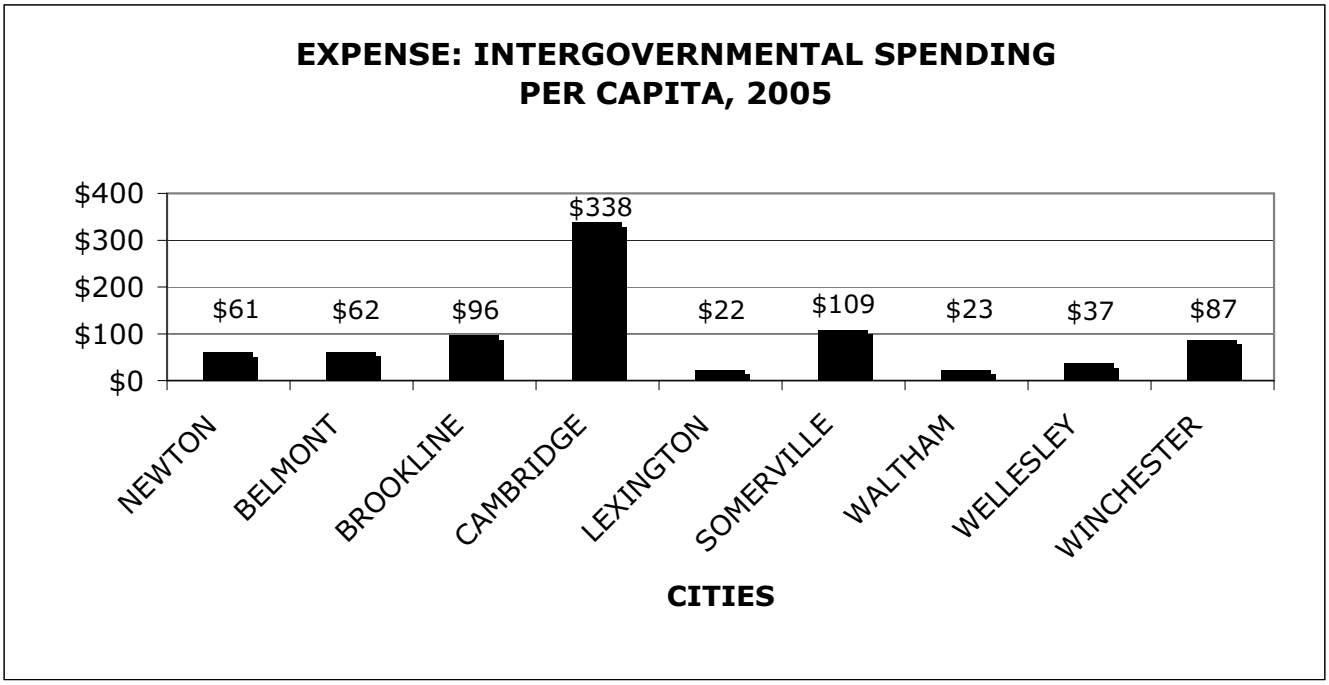


NOTES:

1. Intergovernmental Spending includes any federal assessments and charges, state and county assessments and charges, and assessments and charges from Massachusetts Water Resources Authority and various regional districts.

EXPENSE: INTERGOVERNMENTAL SPENDING PER CAPITA, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/MunicipalActualExpenditures/GeneralFundExpenditures0005.xls

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$5,045,783	83,158	$61
BELMONT	$1,439,559	23,371	$62
BROOKLINE	$5,352,984	55,590	$96
CAMBRIDGE	$33,886,544	100,135	$338
LEXINGTON	$679,137	30,266	$22
SOMERVILLE	$8,134,272	74,963	$109
WALTHAM	$1,362,478	59,556	$23
WELLESLEY	$989,645	26,978	$37
WINCHESTER	$1,850,491	21,181	$87



NOTE: See detail in Appendix B

EXPENSE NOTES

Spending variables do not include capital outlay. All data are taken from the Schedule A from the Department of Local Services. Only education spending figures were drawn from the Department of Education.
Except for MCAS results, no outcome indicators were analyzed. The figures therefore do not reflect adequacy of spending in terms of the cities' needs and do not intend to judge effectiveness.
It seems that especially for expenses the instructions in the Schedule A are subjective. Towns and cities have therefore differently classified cost figures. Cities made the following comments on the different variables.

PUBLIC SAFETY
1. Major expenditures were mostly made under Police and Fire whereas under "Other Public Safety," only small expenditures were made.
2. Cambridge supplies a lot of services that other communities do not – in part because of its dense, urban nature and in part because residents are willing to pay for such services. For example, Cambridge has a Class 1 Fire Rating – the only community in New England with such a rating. According to officials, It is also one of the few communities in the country whose emergency responders have Advanced Life Support capabilities. The city has also invested heavily in emergency communications systems.
3. Belmont's high spending may be explainable by the fact that it includes E-911, which is often rolled into police spending, and school crossing guards, which are sometimes paid for from the education account.
4. Winchester classifies all public safety spending under police and fire (e.g. also emergency medical services). Therefore there is no cost classified as "Other Public Safety".

POLICE
1. Belmont's spending on police per capita is lower because it is a town, not a city. Crime is low, and Belmont is not adjacent to high-crime jurisdictions. Also, expenses for E-911 dispatch are included in the "Other Public Safety" line item, rather than police.
2. Brookline has spent the highest amount on Police and explained this with high political emphasis on security.

OTHER PUBLIC SAFETY
1. Cambridge's high per capita spending in this category comes from parking enforcement and inspectional services (food safety, etc.)

PUBLIC WORKS
1. Cambridge and Somerville both mentioned that the apparent low spending relative to others is likely a reporting issue – officials say they spend as much on public works as other communities, but some of this spending is accounted for in separate enterprise funds.

EXPENSE NOTES (Cont.)

EDUCATION

1. Spending seems to be negatively correlated with pupil performance. Cities at the lower end of spending such as Belmont and Winchester have the highest scores on the Composite Performance Index based on MCAS results. Cambridge scores significantly below the state-wide target. Potential explanation for the negative correlation may be that cities spend the most where students are not performing well in order to improve schooling. See Page 6 on MCAS results for further information.
2. Cambridge: Education spending said to be high because of small schools, small class sizes, and support services.
3. Somerville tries to spend a lot on education relative to its revenue. The city's school enrollment is declining slightly. It tends to take care of its own special education students, but does not generally "import" any from other cities and towns.
4. Lexington has historically supported high levels of school spending. Maintenance of school capital assets is included in the education budget.
5. Belmont: Maintenance of school capital assets is included in the education budget.

HEALTH & WELFARE

1. Cambridge: High health and welfare spending comes from a large contribution to a local hospital.
2. Belmont: All health insurance costs for school employees are paid through the school operating budget.

INTERGOVERNMENTAL SPENDING

1. For most cities this is only MBTA spending.
2. The formula for MBTA changed recently to require higher payments from communities that are not adjacent to Boston. This may have changed intergovernmental expenditures for several communities.

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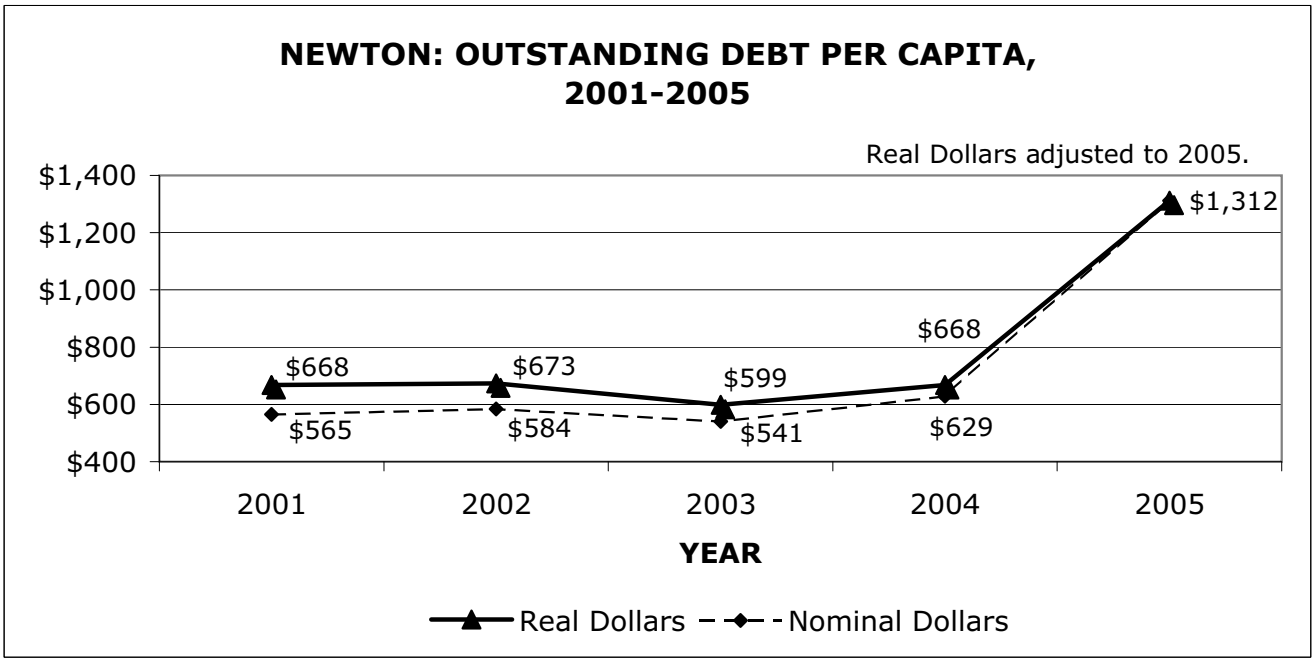
DEBT

NEWTON: OUTSTANDING DEBT PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$56,022,570	$47,445,969	83,927	$668	$565
2002	$56,333,205	$48,899,595	83,686	$673	$584
2003	$50,514,991	$45,627,892	84,323	$599	$541
2004	$55,980,696	$52,733,287	83,802	$668	$629
2005	$109,108,798	$109,108,798	83,158	$1,312	$1,312



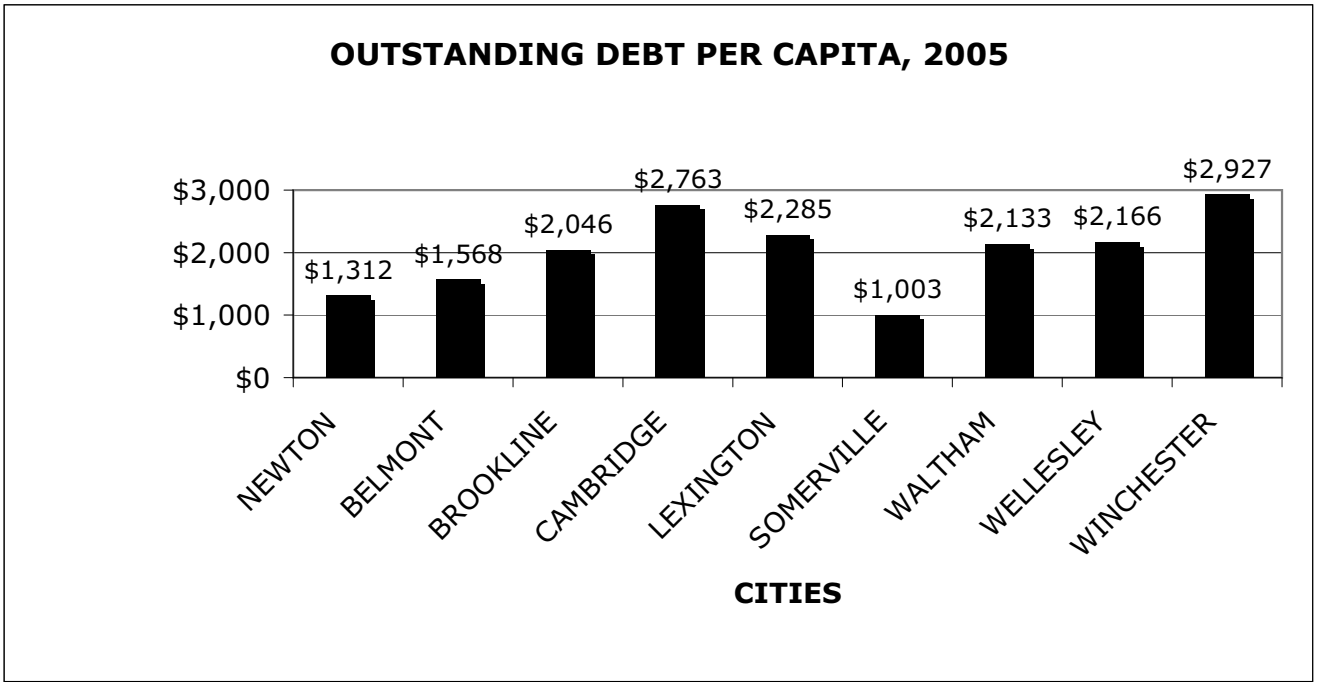
NOTES:
1. Total Outstanding Debt refers to the remaining principal payments that have not been paid off as of July 1 of the current fiscal year.

COMMENTS/OBSERVATIONS:
1. Increased in FY 2005 because of issued debt for the high school project ($10 million).

OUTSTANDING DEBT PER CAPITA, 2005

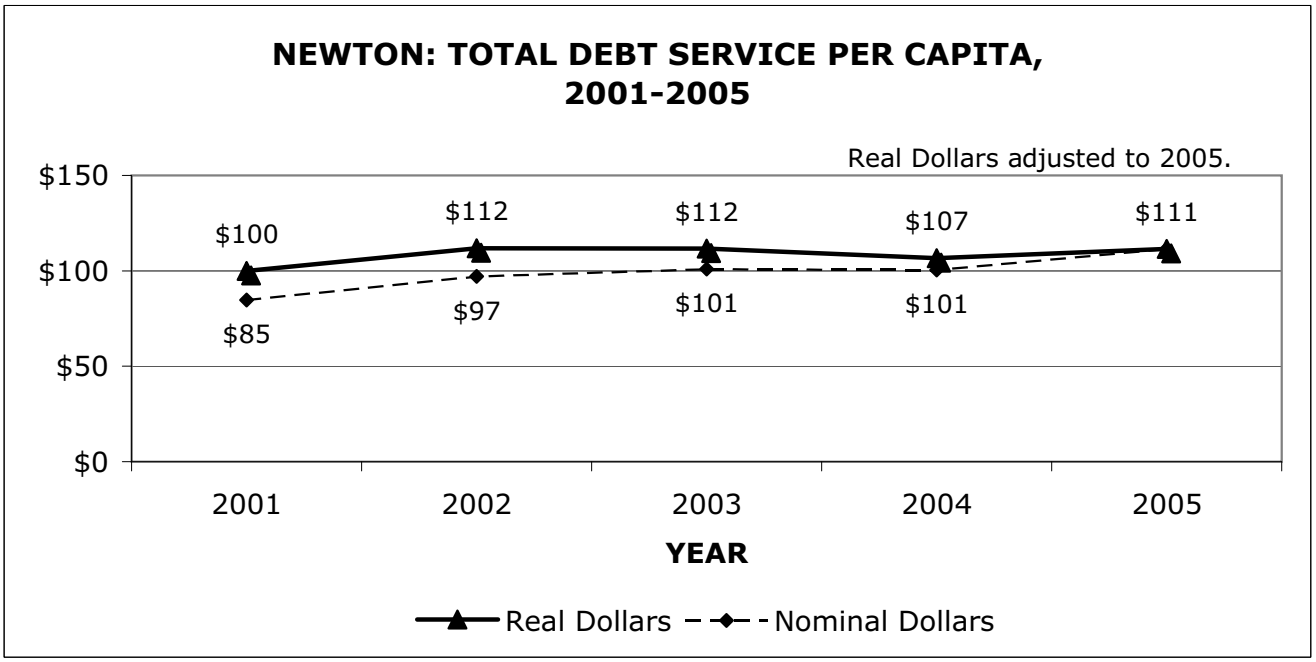
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$109,108,798	83,158	$1,312
BELMONT	$36,642,476	23,371	$1,568
BROOKLINE	$113,749,348	55,590	$2,046
CAMBRIDGE	$276,696,981	100,135	$2,763
LEXINGTON	$69,145,059	30,266	$2,285
SOMERVILLE	$75,199,988	74,963	$1,003
WALTHAM	$127,030,439	59,556	$2,133
WELLESLEY	$58,430,474	26,978	$2,166
WINCHESTER	$62,002,542	21,181	$2,927



NEWTON: TOTAL DEBT SERVICE PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$8,391,393	$7,106,739	83,927	$100	$85
2002	$9,358,068	$8,123,197	83,686	$112	$97
2003	$9,421,640	$8,510,139	84,323	$112	$101
2004	$8,941,507	$8,422,815	83,802	$107	$101
2005	$9,268,477	$9,268,477	83,158	$111	$111

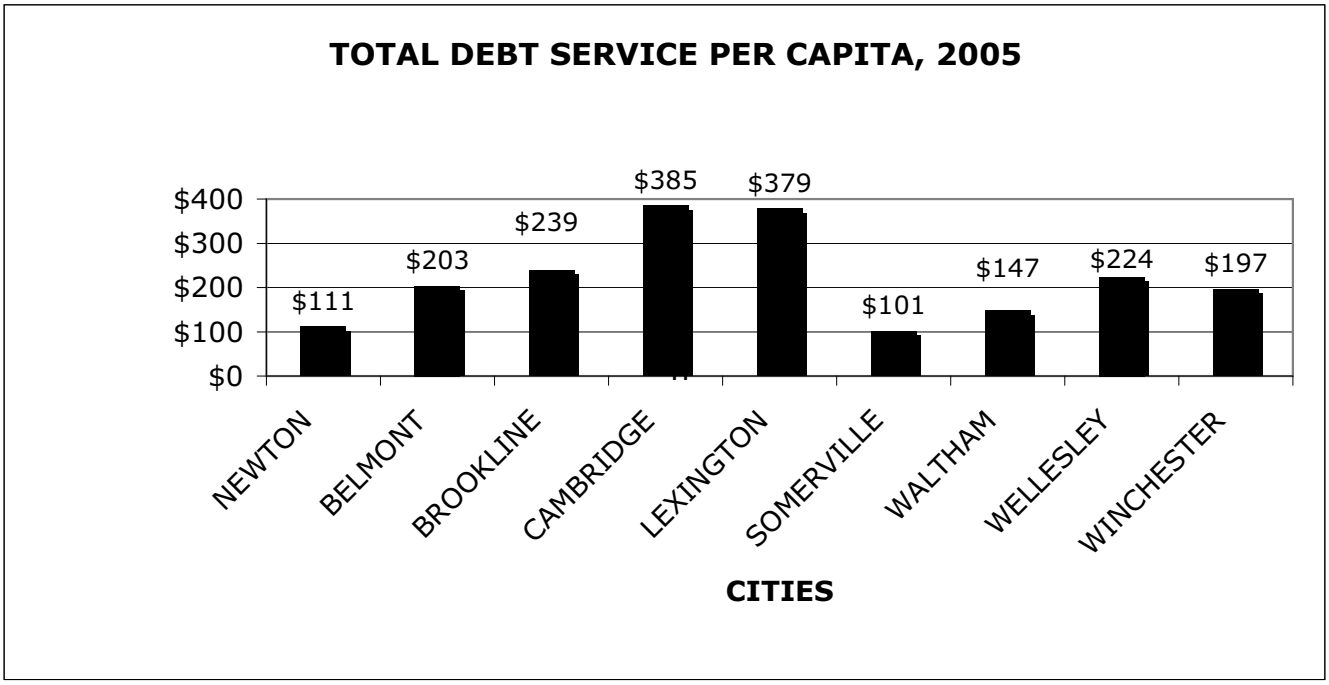


NOTES:
1. Total Debt Service refers to the repayment cost, during the relevant fiscal year, of the principal and interest on all bonds issued by the city.

TOTAL DEBT SERVICE PER CAPITA, 2005

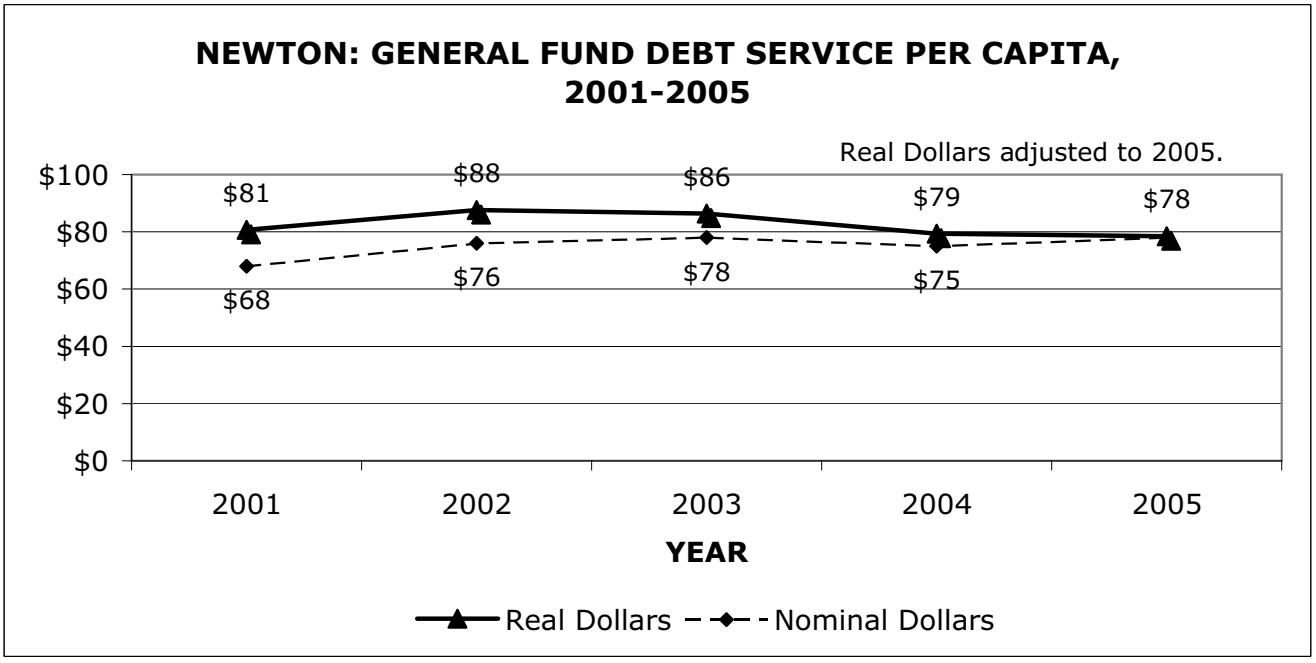
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$9,268,477	83,158	$111
BELMONT	$4,753,898	23,371	$203
BROOKLINE	$13,297,623	55,590	$239
CAMBRIDGE	$38,540,434	100,135	$385
LEXINGTON	$11,456,346	30,266	$379
SOMERVILLE	$7,597,795	74,963	$101
WALTHAM	$8,764,748	59,556	$147
WELLESLEY	$6,037,175	26,978	$224
WINCHESTER	$4,164,645	21,181	$197



NEWTON: GENERAL FUND DEBT SERVICE PER CAPITA, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

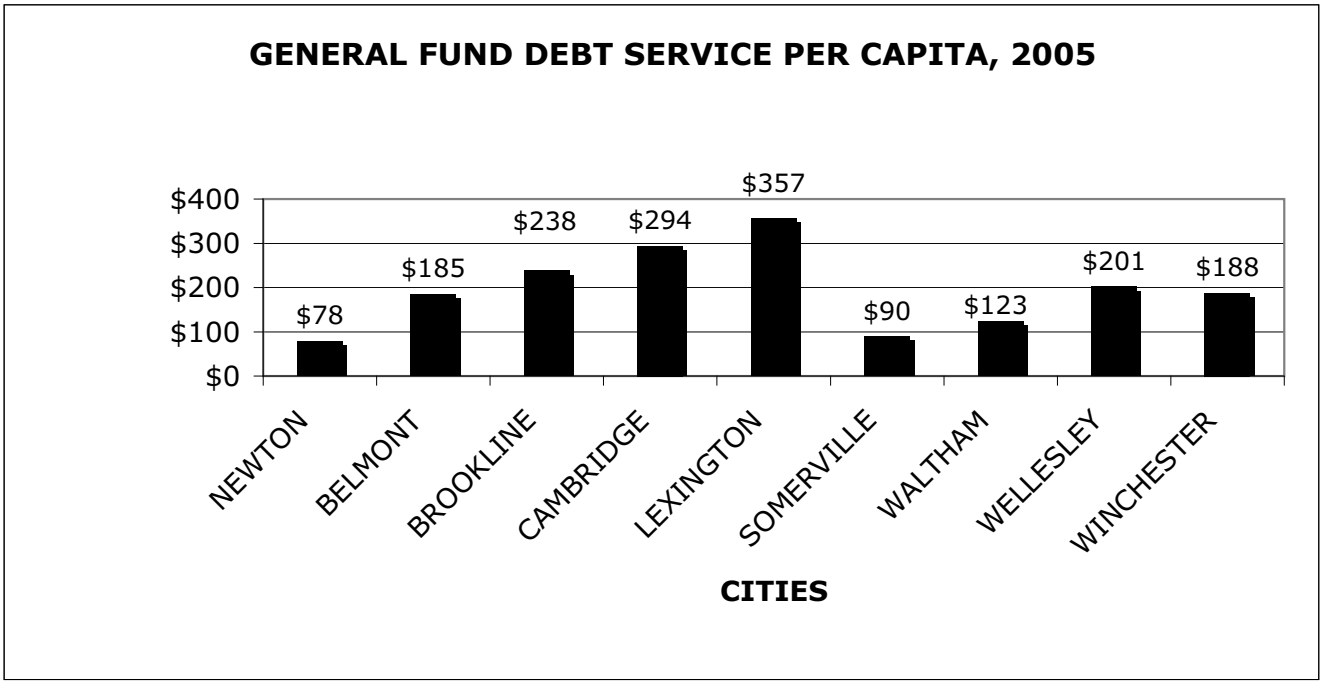
YEAR	REAL AMOUNT	NOMINAL AMOUNT	POPULATION	REAL $ PER CAPITA	NOMINAL $ PER CAPITA
2001	$6,767,706	$5,731,625	83,927	$81	$68
2002	$7,334,168	$6,381,077	83,686	$88	$76
2003	$7,280,289	$6,591,148	84,323	$86	$78
2004	$6,647,735	$6,276,573	83,802	$79	$75
2005	$6,527,805	$6,527,805	83,158	$78	$78



NOTES:
1. General Fund Debt Service refers to the repayment cost, during the relevant fiscal year, of the principal and interest on all particular bonds paid for using the General Fund.

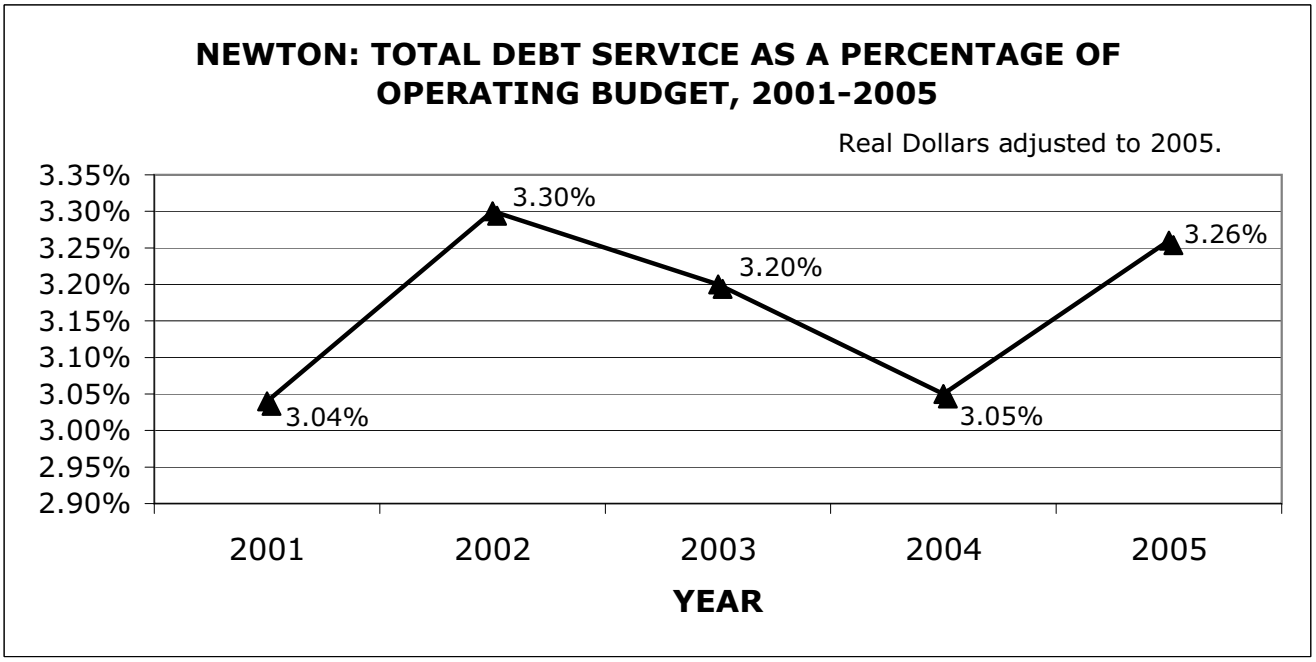
GENERAL FUND DEBT SERVICE PER CAPITA, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$6,527,805	83,158	$78
BELMONT	$4,325,412	23,371	$185
BROOKLINE	$13,247,416	55,590	$238
CAMBRIDGE	$29,393,201	100,135	$294
LEXINGTON	$10,796,150	30,266	$357
SOMERVILLE	$6,715,755	74,963	$90
WALTHAM	$7,336,486	59,556	$123
WELLESLEY	$5,428,940	26,978	$201
WINCHESTER	$3,980,796	21,181	$188



NEWTON: TOTAL DEBT SERVICE AS A PERCENTAGE OF OPERATING BUDGET, 2001-2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

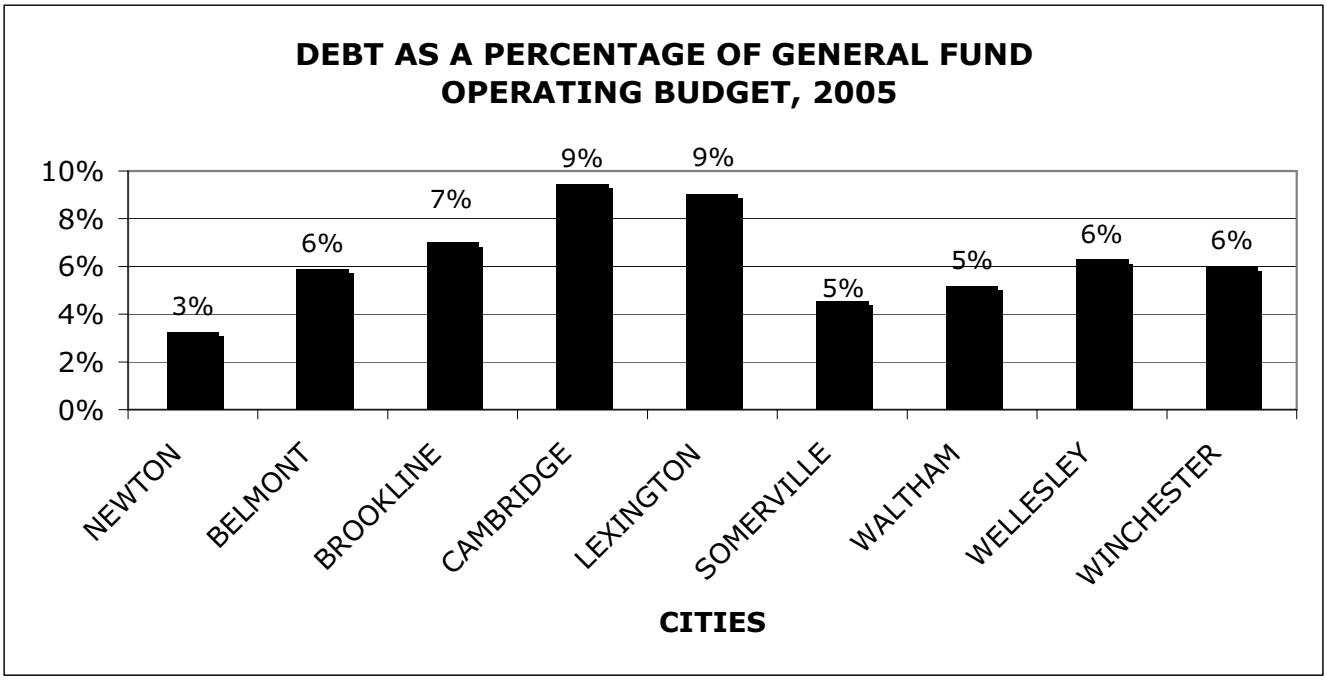
YEAR	PERCENTAGE
2001	3.04%
2002	3.30%
2003	3.20%
2004	3.05%
2005	3.26%



NOTES:
1. Debt as a Percentage of General Fund refers to the Total Debt Service for a fiscal year divided by that year's operating budget.

TOTAL DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND OPERATING BUDGET, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	PERCENTAGE
NEWTON	3.26%
BELMONT	5.90%
BROOKLINE	7.00%
CAMBRIDGE	9.47%
LEXINGTON	9.03%
SOMERVILLE	4.57%
WALTHAM	5.19%
WELLESLEY	6.29%
WINCHESTER	6.01%

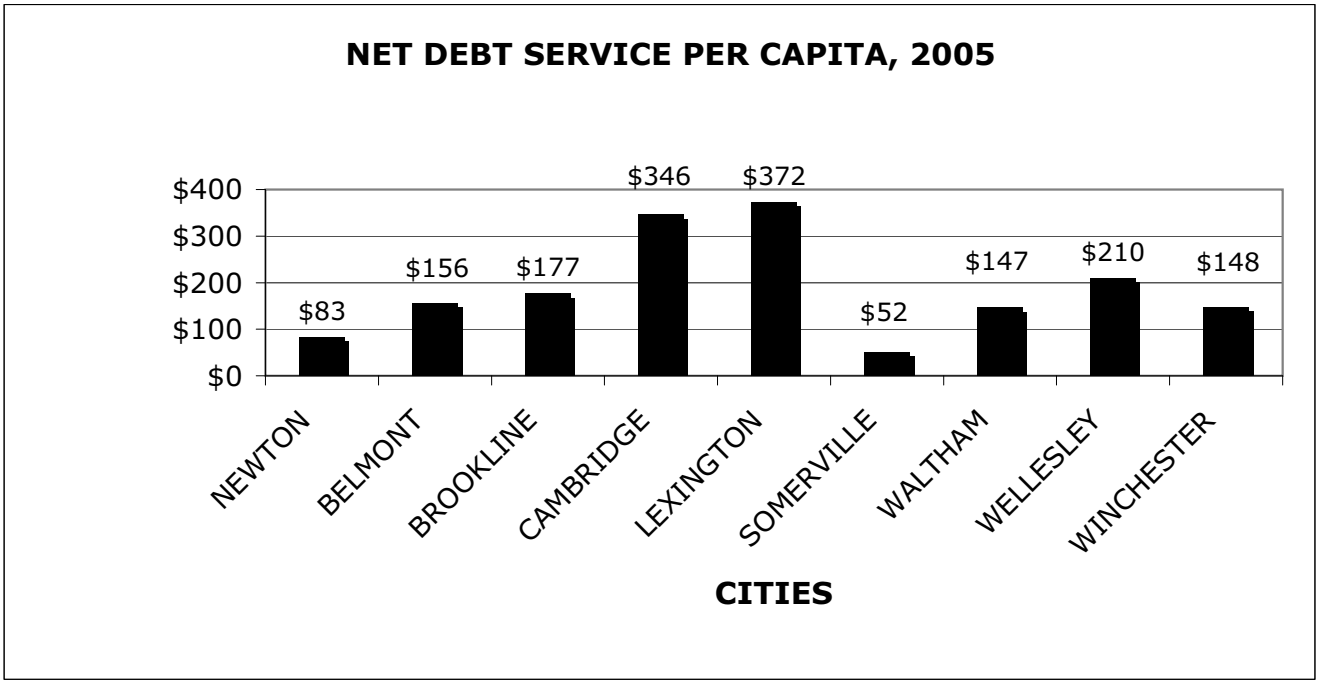


NOTES:
1. See Note on Final Page of Appendix

NET DEBT SERVICE PER CAPITA, 2005

Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	AMOUNT	POPULATION	PER CAPITA
NEWTON	$6,890,634	83,158	$83
BELMONT	$3,654,112	23,371	$156
BROOKLINE	$9,854,829	55,590	$177
CAMBRIDGE	$34,647,683	100,135	$346
LEXINGTON	$11,268,651	30,266	$372
SOMERVILLE	$3,861,419	74,963	$52
WALTHAM	$8,764,748	59,556	$147
WELLESLEY	$5,672,046	26,978	$210
WINCHESTER	$3,125,868	21,181	$148



NOTES:

1. Net Debt Service refers to the Total Debt Service minus reimbursements from the state's school building reinbursement fund.

DEBT NOTES

1. *Newton's* debt Increased significantly in FY 2005 because of issued debt for the high school project ($10 million). Newton traditionally has kept its debt levels low and used shorter-term bonds. Cash is normally used to finance capital projects. Newton traditionally issued mostly short-term debt in order to turn debt over and be able to borrow more; used cash to finance capital projects.

2. *Belmont* has a policy of funding capital expenses through the annual operating budget and attempt to maintain annual capital spending of approximately $2.2 million. Approximately $1 million is dedicated to roads, and the remainder is distributed among buildings and other infrastructure projects.

3. *Cambridge's* large tax base gives it enormous flexibility when it comes to debt. The city is nowhere near its debt limits. Except for major projects, it follows a rapid repayment plan than pays off debts in 10 years. In previous good times, it filled up a debt stabilization fund which it uses to smooth out debt service payments.

4. *Lexington's* debt is primarily a result of schools projects from the 1990s (including two high schools and a middle school). SBA is not included in the debt and Lexington only issued long-term debt for the town share of school projects. Lexington has a history of using tax overrides for both operating expenses and debt exclusion.

5. *Somerville* has very low debt per capita (both in absolute value and in debt service payments) because (compared with other surveyed cities) it does not have a very rich tax base. The city tries to ensure that it can meet its debt service payments within the constraints of its operating budget and it often has to forego proposed small capital improvements to keep within budget.

6. Even with its relatively low debt, Somerville has an A1 rating. This is primarily because of the low tax base, but also because, until recently, Somerville's financial management was out of date. Over the past few years, Somerville has drastically improved its management and the bond rating agencies have responded by raising Somerville's bond rating.

DEBT NOTES (Cont.)

6. *Waltham* is in the middle of a major school construction program, which involves building of 6 new elementary schools and 2 new middle schools. The program began in 1999 and six schools have been completed. The city was one of the last communities to receive a 90% reimbursement rate from the state. The actual reimbursement rate, excluding ineligible costs, is about 75%. The program did not involve a proposition 2 ½ override. The city set aside money in its stabilization fund to pay for the debt. Due to the large commercial tax base, Waltham has a lot of excess capacity, which allows them to build reserves. This, combined with the generous state reimbursement rate, allowed them to avoid an override for a very large school capital program.

7. SBA funds are figured into debt for Waltham. The city sells short-term debt to fund the entire cost of the school projects, and reimbursement from the SBA pays off the notes.

8. Waltham recently sold $23,555,000 of general obligation bonds. This was times to coincide with payoff from SBA for the schools that were recently completed. The new bond issue will pay for the remaining schools, as well as several water and sewer projects.

9. Waltham does not have a policy on a target level of indebtedness. The community has a very good bond rating—AA+, and has historically had low levels of debt. Mr. Quinn explained that the blue-collar demographics of the city drive a fiscally conservative policy, because voters are less likely to support Proposition 2 ½ overrides than in wealthier communities.

10. *Winchester* has a fairly large amount of outstanding debt. It typically amortizes the debt mostly over 20-year period, and this longer than usual payback period might explain the smaller debt servicing costs for Winchester.

APPENDICES

DEFLATOR TABLE

Sources: US Department of Commerce, Bureau of Economic Analysis
Table 3.9.4. Price Indexes for Government Consumption Expenditures and Gross Investment
Bureau of Economic Analysis
Downloaded on 12/3/2006 At 10:42:25 PM Last Revised November 29, 2006
http://bea.gov/bea/dn/nipaweb

Line		2001	2002	2003	2004	2005
1	Government consumption expenditures and gross investment	102.544	105.507	109.849	114.718	121.183
2	Consumption expenditures (1)	102.779	106.139	111.172	116.248	122.768
3	Gross investment (2)	101.46	102.61	103.817	107.736	113.947
4	Structures	103.449	106.387	108.894	115.179	125.497
5	Equipment and software	98.195	96.437	95.588	95.994	96.58
6	Federal	101.907	105.631	110.094	115.249	120.726
7	Consumption expenditures	102.314	106.777	111.947	117.695	123.792
8	Gross investment	99.337	98.416	98.488	99.994	101.776
9	Structures	103.742	106.03	109.067	114.151	121.97
10	Equipment and software	98.501	97.009	96.559	97.495	98.436
11	National defense	102.002	105.792	110.751	115.954	121.855
12	Consumption expenditures	102.495	107.018	112.731	118.472	125.071
13	Gross investment	98.763	97.835	98.033	99.911	101.628
14	Structures	103.91	106.463	110.094	115.424	122.288
15	Equipment and software	98.231	97	96.918	98.529	99.901
16	Nondefense	101.739	105.345	108.898	113.963	118.606
17	Consumption expenditures	101.986	106.342	110.509	116.274	121.381
18	Gross investment	100.272	99.364	99.211	100.007	101.913
19	Structures	103.647	105.8	108.553	113.512	121.819
20	Equipment and software	99.047	96.992	95.701	95.009	94.902
21	**State and Local**	**102.8680**	**105.4350**	**109.7120**	**114.4170**	**121.4630**
22	Consumption expenditures	103.034	105.774	110.726	115.388	122.177
23	Gross investment	102.199	104.081	105.711	110.587	118.679
24	Structures	103.428	106.411	108.88	115.249	125.737
25	Equipment and software	97.782	95.655	94.212	93.789	93.793

1. Government consumption expenditures are services (such as education and national defense) produced by government thatare valued at their cost of production. Excludes government sales to other sectors and government own-account investment(construction and software).
2. Gross government investment consists of general government and government enterprise expenditures for fixed assets.

Deflator Used:		2001	2002	2003	2004	2005
21	**State and Local**	**102.868**	**105.435**	**109.712**	**114.417**	**121.463**
	Deflator 2005 Base	**0.8469081**	**0.868042**	**0.903254**	**0.941991**	**1**

STATE AID ACCOUNTS ASSESSMENT, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/StateAid/CsTotalByProgMUN.xls

APPENDIX A

MUNICIPALITIES	Newton	Belmont	Brookline	Cambridge	Lexington	Somerville	Waltham	Wellesley	Winchester
County Assessment, County Tax	$0	$0	$547,767	$0	$0	$0	$0	$401,647	$0
State Assessments and Charges:									
Motor Vehicle Excise	$0	$0	$0	$0	$0	$0	$0	$0	$0
Retired Employees Health Insurance	$16,408	$11,568	$10,458	$9,707	$1,859	$21,967	$9,923	$25,838	$1,606
Retired Teachers Health Insurance	$0	$0	$0	$0	$0	$0	$0	$0	$0
Mosquito Control Projects	$0	$0	$0	$0	$0	$0	$0	$0	$0
Air Pollution Districts	$31,500	$8,163	$20,085	$36,930	$11,904	$17,192	$17,357	$12,763	$7,902
Metropolitan Area Planning Council	$22,129	$6,343	$15,046	$26,858	$8,089	$20,293	$15,584	$7,036	$5,565
Old Colony Planning Council	$0	$0	$0	$0	$0	$0	$0	$0	$0
RMV Non-Renewal Surcharge	$192,060	$36,760	$202,720	$468,680	$20,900	$327,160	$70,160	$72,260	$11,200
Sub-Total, State Assessments	$262,097	$62,834	$248,309	$542,175	$42,752	$386,612	$113,024	$117,897	$26,273
Transportation Authorities:									
MBTA	$4,742,915	$1,351,163	$4,445,753	$7,418,110	$623,478	$4,397,366	$1,180,359	$515,954	$424,280
Boston Metro. Transit District	$2,688	$657	$1,654	$3,092	$0	$941	$0	$0	$0
Regional Transit Authority	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sub-Total, Transportation Assessments	$4,745,603	$1,351,820	$4,447,407	$7,421,202	$623,478	$4,398,307	$1,180,359	$515,954	$424,280
Annual Charges Against Receipts:									
Multi-Year Repayment Program	$0	$18,169	$0	$0	$0	$0	$0	$0	$0
Special Education	$14,238	$10,656	$16,743	$9,568	$3,040	$19,768	$23,239	$0	$6,222
Energy Conservation	$0	$0	$0	$0	$0	$0	$0	$0	$0
STRAP Repayment	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sub-Total, Charges Against Receipts	$14,238	$28,825	$16,743	$9,568	$3,040	$19,768	$23,239	$0	$6,222
Tuition Assessments:									
School Choice Sending Tuition	$0	$0	$2,451	$79,349	$4,861	$6,446	$23,383	$0	$0
Charter School Sending Tuition	$11,035	$27,591	$0	$4,993,977	$0	$4,143,580	$24,657	$0	$9,149
Essex County Sending Tuition	$0	$0	$0	$0	$0	$0	$0	$0	$0
Sub-Total, Tuition Assessments	$11,035	$27,591	$2,451	$5,073,326	$4,861	$4,150,026	$48,040	$0	$9,149
Total Estimated Charges	$5,032,973	$1,471,070	$5,262,677	$13,046,271	$674,131	$8,954,713	$1,364,662	$1,035,498	$465,924

APPENDIX B

STATE AID ACCOUNT RECEIPTS, 2005
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/StateAid/CsTotalByProgMUN.xls

	Newton	Belmont	Brookline	Cambridge	Lexington	Somerville	Waltham	Wellesley	Winchester
Education Programs									
Chapter 70	$9,115,550	$2,824,519	$4,922,047	$6,791,105	$4,895,754	$19,441,989	$5,727,143	$2,949,947	$2,953,621
School Transportation	$0	$0	$0	$0	$0	$0	$0	$0	$0
School Construction	$2,771,504	$1,099,786	$3,442,794	$5,808,723	$187,696	$3,736,376	$0	$365,128	$1,038,777
Retired Teachers' Pensions	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tuition of State Wards	$0	$0	$0	$0	$0	$0	$0	$0	$0
Charter Tuition Assessment Reimbursement	$10,513	$23,340	$0	$1,718,820	$0	$0	$2,341	$0	$3,491
Charter School Capital Facility Reimburseme	$742	$2,226	$0	$209,244	$0	$300,510	$1,484	$0	$742
Education Offset Items									
Racial Equality	$1,961,228	$500,508	$1,056,407	$0	$1,263,144	$0	$0	$692,704	$0
School Lunch	$43,719	$11,867	$17,721	$29,599	$27,156	$35,679	$26,131	$14,429	$11,507
Aid to Reduce Class Size	$0	$0	$0	$0	$0	$0	$0	$0	$0
School Choice Receiving Tuition	$0	$299,491	$0	$0	$0	$0	$0	$0	$0
Sub-Total, All Education Programs	$13,903,256	$4,761,737	$9,438,969	$14,557,491	$6,373,750	$23,514,554	$5,757,099	$4,022,208	$4,008,138
General Government Programs									
Lottery	$4,428,398	$1,520,795	$3,380,871	$6,820,267	$1,392,955	$10,692,616	$4,764,032	$1,163,702	$1,124,847
Additional Assistance	$1,377,012	$827,483	$3,497,741	$17,956,060	$0	$16,219,924	$5,458,868	$96,838	$344,404
Highway Fund	$0	$0	$0	$0	$0	$0	$0	$0	$0
Local Share of Racing Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0
Regional Public Libraries	$61,025	$0	$0	$0	$0	$0	$0	$210,860	$0
Police Career Incentive	$603,886	$186,909	$610,381	$1,015,293	$188,765	$601,367	$587,500	$133,277	$164,448
Urban Renewal Projects	$0	$0	$0	$0	$0	$0	$0	$0	$0
Veterans Benefits	$24,835	$0	$54,499	$153,159	$0	$38,367	$57,635	$0	$0
Exempt: Vets, Blind Persons & Surv Spouses	$110,039	$24,475	$25,448	$95,969	$50,382	$225,029	$53,629	$24,005	$22,675
Exempt: Elderly	$50,200	$17,570	$3,012	$40,160	$21,586	$72,790	$42,670	$11,052	$19,076
State Owned Land	$0	$0	$0	$0	$0	$0	$132,917	$0	$0
General Government Offset Item									
Public Libraries	$129,784	$34,483	$83,109	$114,833	$31,723	$95,482	$76,743	$28,048	$33,131
Sub-Total, All General Government	$6,785,179	$2,611,715	$7,655,061	$26,195,741	$1,685,411	$27,945,575	$11,173,994	$1,667,782	$1,708,581
Total Estimated Receipts	$20,688,435	$7,373,452	$17,094,030	$40,753,232	$8,059,161	$51,460,129	$16,931,093	$5,689,990	$5,716,719

COMMUNITY PRESERVATION ACT (CPA) STATUS AND MATCHING FUNDS BY TOWN, DECEMBER 2006

Sources: Community Preservation Act Website, www.communitypreservation.org
Massachusetts Department of Revenue, http://www.dls.state.ma.us/mdmstuf/CPA.htm

MUNICIPALITY	CPA ADOPTED	DATE OF CPA VOTE	OUTCOME	SURCHARGE RATE	EXEMPTIONS	STATE MATCHING FUNDS FY 2003-2005	STATE MATCHING FUNDS FY 2003-2007	% OF TOTAL FY 2003-2007
Newton	Yes	11/7/2005	Passed	1%	None	$5,174,725	$9,048,018	5.00%
Belmont	No	None	N/A	N/A	N/A			
Brookline	No	11/8/2010	Failed	3%	Low income, first 100,000			
Cambridge	Yes	11/7/2005	Passed	3%	Low income, first 100,000	$15,873,061	$27,728,667	15.33%
Lexington	Yes	6/7/2010	Passed	3%	Low income, first 100,000			
Somerville	No	None	N/A	N/A	N/A			
Waltham	Yes	11/9/2009	Passed	2%	Low income, first 100,000		$1,813,306	1.00%
Wellesley	Yes	11/6/2006	Passed	1%	Low income, first 100,000	$1,071,000	$2,298,272	1.27%
Winchester	No	None	N/A	N/A	N/A			
TOTAL STATE MATCHING FUNDS						$75,837,980	$180,842,154	22.61%

NOTES:

1. The Community Preservation Act is a local option law that allows communities to approve a local surcharge of up to 3% of the property tax to fund affordable housing, open space protection and historic preservation. Approval by voters is required. Municipalities that adopt the surcharge are eligible to receive state matching funds, which are generated by deed registry fees statewide.

2. Cambridge has excess capacity so CPA matching funds essentially reduce the tax rate.

3. Somerville and Belmont report no plan to adopt the CPA.

BOND RATINGS
Sources: Massachusetts Department of Revenue, Division of Local Services
http://www.dls.state.ma.us/mdmstuf/debt.htm

MUNICIPALITY	Moody's Bond Rating	S&P Bond Rating
NEWTON	AAA	AAA
BELMONT	AAA	AAA
BROOKLINE	AAA	AAA
CAMBRIDGE	AAA	AAA
LEXINGTON	AAA	AAA
SOMERVILLE	A1	A+
WALTHAM	AA1	AA+
WELLESLEY	AAA	AAA
WINCHESTER	AAA	AAA

NOTES:
1. As of June 2006

OVERRIDE HISTORY

FY	BELMONT	BROOKLINE	LEXINGTON	NEWTON	WELLESLEY	WINCHESTER
91			$1,097,829		$617,900	
92	$2,094,946				$325,000	
93			$2,718,092			
94						
95		$2,960,000				
96			$1,500,000			
97						
98						
99						
00						
01			$3,440,829		$750,000	
02	$3,000,000				$1,967,821	
03	$2,400,000			$11,500,000	$2,539,201	$4,550,000
04					$2,895,436	
05			$4,224,340		$2,596,851	
06			$1,858,435			
07					$3,158,618	
TOTAL	**$7,494,946**	**$2,960,000**	**$14,839,525**	**$11,500,000**	**$14,850,827**	**$4,550,000**

NOTE:
1. Information given for all AAA Municipalities within the benchmarking sample.